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MODERATING EFFECT OF FIRM SIZE ON THE RELATIONSHIP BETWEEN BOARD COMPOSITION AND FINANCIAL PERFORMANCE OF REGULATED SACCOS IN SOUTH RIFT REGION, KENYA

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Abstract: **Sound corporate governance is very critical in improving the financial performance of any organization. Adoption of corporate governance by SACCOs is the commitment to properly manage it while promising to pay back a reasonable return on money invested. SACCOS are facing myriad of challenges which have created inefficiency and lack of competitiveness hence impair their financial performance and this has necessitated the need for this study to fill the knowledge gap in the existing literature. This study sought to examine the moderating effect of firm size on the relationship between board composition and financial performance of regulated SACCOs in South Rift Region, Kenya. A mixed research design was adopted for this study. All the 18 SASRA regulated SACCOs in south rift region form the target population. Primary data collected using structured questionnaire where the respondents were the Chief Executive Officers, Board Members, Chief Finance Officers and Chairperson of audit committee. The study did census of all 18 SASRA regulated SACCOs in South Rift Region since the population was small where 216 respondents were purposely selected and were 18 Chief Executive Officers, 162 Board Members, 18 Chief Finance Managers and 18 chairpersons of Audit Committee. Multiple regression as inferential statistics was used for testing the hypothesis. The data are presented using tables and charts. The study found that there was strong, positive and significant relationship between firm size on corporate governance and financial performance where the strongest correlation was established between financial performance and board composition (r=0.728; p <0.05). The study concludes that SACCO performance is as a result of the composition of the Board of directors and that the levels upon which a decision passes before it is being implemented influences performance of SACCO.**

Keywords: **Board Composition, Corporate Governance, Firm size, Financial Performance.**

1. INTRODUCTION

Corporate governance is used by SACCOs to resolve internal conflicts of interest and promote peace without jeopardizing the SACCOs' long-term viability (Feather & Meme, 2019). According to Barzuza, Curtis, and Webber (2019), corporate governance is the commitment to properly manage a corporation so as to get reasonable return on investment. Management should have the right incentives to achieve goals that will benefit SACCOs and their shareholders (Ahmed & Rugami, 2019).

The relationships and organizational framework that affect an organization's financial performance and direction, in the words of Rose and Sharfman (2014) is corporate governance and is typically centered on the Board of Directors. It is

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essential that it interacts with the other major actors, who are often management and stockholders. The company's employees, customers, suppliers, and creditors are also participants. According to Moro-Visconti (2020), corporate governance refers to the full set of steps done within the socio-economic organization to motivate and participate in the production process as economic agents.

Davis (2012) asserts that corporate governance ensures that an organization achieves accountability through enhancing transparency and disclosure, ensuring appropriate board composition, and improving audit committee characteristics. Board composition describes what the board constitutes which varies from one study to another. Kyoa's (2017) study examines board composition in terms of board education qualification, professional experience of board members, independent directors in the board. Ruto, Naibei and Cheruiyot (2017) assert that board of director's composition is measured using board diversity, board independence and board expertise. The board composition provides it with diverse educational, experience, and knowledge in the decision-making process.

In addition to giving loans and investment financial services, the business of SACCOs is to safeguard their members' financial and other assets. The SACCOs' primary source of income is the creation of credit. The possibility of a member failing to uphold their end of the bargain on the due date or at any time subsequently puts a SACCO's operations in serious jeopardy. Due to this, a SACCO with a high credit risk has bankruptcy risk which endangers financial stability of its members leading to collapse of SACCO (Onuora & Ifeacho, 2017).

The moderating impact of business size on the corporate governance and financial performance of microfinance firms in Kenya was examined by Kivaya, Kemboi, and Odunga in their study from 2020. The findings showed a strong and positive relationship between firm size and financial success. Most studies reviewed solely look at the relationship between corporate governance and financial performance, rarely taking into account the moderating variable's possible impact on both the independent and dependent variables. With the moderating influence of firm size taken into consideration, this study seeks to close the gap between board composition and financial performance of regulated SACCOs.

Accomplishment of organizational objectives while pursuing commercial strategies that produce long-term competitive advantage is financial performance (Ruokonen, 2020). Bello (2018) noted that a balanced scorecard-style approach, his increases non-financial factors to a level consistent with a common emphasis on financial measures, could be utilized to better accurately measure organizational effectiveness. According to KUSCCO (2010), financial performance of a firm is a measure of how effectively it uses the resources in its primary business to generate income.

Establishing effective governance structures is one of the biggest issues Savings and Credit Cooperatives (SACCOs) confront. According to Odera (2012), the significant growth in providers of services of all kinds is associated with an increase in the additional customers, assets, and more complex organizational structures. Therefore, SACCO's performance can be enhanced by good governance, which can also ensure its long-term sustainability. This has developed more interest in Saccos' study, understanding, and incorporation of corporate governance as it is one of the areas of the sector that needs improvement (Kenani & Bett, 2019).

The establishment of the SASRA is one example of increased initiative in policy that result in established structures for regulation and supervision meant to assist the industry's sound expansion, have changed public authorities' attitudes toward the development of SACCOs in recent years (Chelangat & Namusonge, 2018). According to Omari, (2012), SACCOs Societies Act of 2008 and the regulations made SASRA and provide the authority to control and regulate SACCO Societies in Kenya. The Act's mandate for the Authority is to grant licenses to SACCO societies to conduct regulated business. According to SASRA, Report of 2021, SACCOS contributed 6.67% in 2021 and 6.85% in 2020 to the national Gross Domestic Product (GDP) thus this decline warrant a need for a study to determine the reason for the decline. South Rift Region has 18 SASRA regulated SACCOs which operates as financial and non-financial (SASRA, 2022).

1.1 Statement of the Problem

Sound corporate governance is very critical in improving the financial performance of any organization. SACCOs have made a significant contribution to the financial sector plan by mobilizing savings and expanding access to affordable credit. According to SASRA Report of 2021, SACCOS contributed 6.67% in 2021 and 6.85% in 2020 to the national GDP. However, SACCOS are faced with myriad of challenges including poor management, insufficient capital and low growth rate, all of which have hampered their success by making them ineffective and uncompetitive.

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SASRA developed Guidelines on Good Governance Practices to be followed by regulated SACCOs, but the majority of SACCOs have not yet complied with this fully. Although there are many researches on corporate governance and the performance of SACCOs, there are no evidence to show the effect of firm size as a moderating variable on the relationship between corporate governance and financial performance. This study therefore sought to fill the existing literature gap by establishing the moderating effect of firm size on the relationship between board composition and financial performance of regulated SACCOs in South Rift Region, Kenya.

2. LITERATURE REVIEW

A study Kivaya, Kemboi and Odunga, (2020) on the moderating role of firm size on corporate governance and financial performance of microfinance institutions in Kenya was done in Nairobi City County and was guided by Agency Theory, Stewardship Theory and Resource Dependence Theory. The study adopted causal research design. The target population of the study was all the 13 registered Microfinance Institutions in Nairobi City County. Secondary data were collected from micro finance financial reports. The study conducted both descriptive statistics analysis and panel data analysis model. Pearson correlation was used to establish the association between the independent variables and the dependent variable and it was found that board size, board duality have a negative and significant association with financial performance of microfinance institutions. Firm size moderates corporate governance and financial performance of microfinance institutions in Nairobi County where the explanatory power of R^2 improved from 46.72% before moderation to 52.68% after moderation. This study was done in microfinance institution hence there is need for a study in SASRA regulated SACCOs.

Kyoa (2017) examined board composition on the operational efficiency of regulated SACCOs. An analytic research design was done where trend analysis and correlation analysis were achieved on a target of 15 regulated SACCOs in Kiambu County. Questionnaires were used to collect information concerning board characteristics while secondary data were adopted to collect FP from 2002 to 2016 from the SACCOs. The findings showed a correlation between operational effectiveness and risk that was favorable. The research found that improving board composition has a beneficial effect on how SACCOs operated. The board composition is enhanced through creating gender balance, improvement of education qualification, increase in director's independence, and improving compensation of share ownership of the board. The current study will examine the moderating effect of firm size on board composition and financial performance.

Ruto, Naibei, and Cheruiyot (2017) looked into the structure, degree of independence, and financial performance of a few Kericho County SACCOs' boards of directors. A sample of 119 respondents was obtained from 169 employees from three selected SACCOs in Kericho County. The financial reports of SACCO gave secondary data. The study established that Board of directors assisted in maximizing the wealth of shareholders. The current study will focus on the moderating effect of firm size on board composition on financial performance of SACCOs.

Badara (2016), examined the moderating effect of firm size on the relationship between board structure and financial performance of Deposit Money Banks in Nigeria. The study investigates the role of bank size (log of the asset) as a moderator of the relationship between board size and board independence with Deposit Money Banks ((DMB) financial performance in Nigeria. Data of the study were obtained from the financial statement of the Nigerian Deposit Money Banks for the period 2005-2015. The data were analysed by regression models using Stata SE 12 software. The results showed that the determinants of board structure (board size, and board independence) and financial performance were moderated by firm size. The study was undertaken in deposit taking banks in Nigeria hence the findings cannot be generalized to SACCOs in Kenya.

Obaje, Abdullahi and Ude, (2021) examined the moderating effect of firm size on the relationship between board structure indicated by board size, board independence and board gender diversity and financial performance indicated by return on assets of quoted deposit money banks using secondary data which spanned from 2012 to 2019, a post International Financial Reporting Standards (IFRS) implementation period. The study employed a random effect regression analysis technique to estimate the values of the parameters and in order to achieve reliability of the result, robustness tests like Correlation Matrix, Shapiro-Wilk Normality Test and Hausman Specification Test were conducted. Findings however indicate that board size moderated by firm size has a negatively insignificant effect on return on assets of quoted deposit money banks in Nigeria. Board independence moderated by firm size had a negative significant effect on ROA while board gender diversity with the interaction of firm size is negatively significant at 1% level of significance. The study was done in another country and on deposit taking banks hence the need to undertake the study in Kenyans SACCOs

3. FINDINGS

The study sought to examine the moderating effect of firm size on the relationship between board composition and financial performance of regulated SACCOs in South Rift Region, Kenya. Respondents were asked to rate their individual levels of agreement with items on board composition as applies in their respective SACCOs. Responses were given on a five-point Likert scale, where 1=Strongly Disagree, 2=Disagree, 3=Neutral, 4=Agree and 5=Strongly Agree. A mean of between 0.0 and 2.5 meant strongly disagreed while a mean of between 2.6 and 5.0 meant strongly agree. The results are as presented in Table 1.

Table 1: Board composition and financial performance

Statement	1	2	3	4	5	M	SD
SACCO performance has been as a result of the composition of the Board of directors	19 (9.1%)	23 (11.1%)	3 (1.4%)	111 (53.4%)	52 (25.0%)	3.74	1.21
The levels upon which a decision passes before it is being implemented influences performance of SACCO	20 (9.6%)	25 (12.0%)	3 (1.4%)	127 (61.1%)	33 (15.9%)	3.62	1.17
Centralization of decision making influences financial performance	19 (9.1%)	23 (11.1%)	4 (1.9%)	98 (47.1%)	64 (30.8%)	3.79	1.24
Academic qualification of board members has the effect of the financial performance of SACCO	17 (8.2%)	24 (11.5%)	4 (1.9%)	111 (53.4%)	52 (25.0%)	3.75	1.19
Number of outside directors has an effect on performance of SACCO	19 (9.1%)	25 (12.0%)	3 (1.4%)	113 (54.3%)	48 (23.1%)	3.70	1.21

Source: Researcher (2024)

Table 1 reveals that majority of respondents who were 111 (53.4%) agreed as well as 52 (25.0%) who strongly agreed that SACCO performance has been as a result of the composition of the Board of directors. Respondents who were 23 (11.1%) disagreed as well as 19 (9.1%) respondents who strongly disagreed that SACCO performance has been as a result of the composition of the Board of directors while 3 (1.4%) were undecided.

The findings also reveals that majority of respondents who were 127 (61.1%) agreed as well as 33 (15.9%) who strongly agreed that the levels upon which a decision passes before it is being implemented influences performance of SACCO. Respondents who were 25 (12.0%) disagreed as well as 20 (9.6%) who strongly disagreed that the levels upon which a decision passes before it is being implemented influences performance of SACCO. The respondents who were undecided were 3 (1.4%).

Centralization of decision making influences financial performance. This was true since majority of respondents who were 98 (47.1%) agreed as well as 64 (30.8%) respondents who strongly agreed. Respondents who were 23 (11.1%) disagreed as well as 19 (9.1%) respondents who strongly disagreed while 4 (1.9%) were undecided.

The findings also showed that academic qualification of board members effect financial performance of SACCO since majority of respondents who were 111 (53.4%) agreed as well as 52 (25.0%) who strongly agreed. Respondents who were 24 (11.5%) disagreed as well as 17 (8.2%) who strongly disagreed that academic qualification of board members effect financial performance of SACCO while 4 (1.9%) were undecided.

The findings showed that majority of respondents who were 113 (54.3%) strongly agreed as well as 48 (23.1%) respondent who agreed that the number of outside directors has an effect on performance of SACCO. Respondents who were 25 (12.0%) disagreed as well as 19 (9.1%) respondents who strongly disagreed that the number of outside directors has an effect on performance of SACCO. Respondents who were 3 (1.4%) were undecided.

The study findings showed that SACCO performance has been as a result of the composition of the Board of directors for it had a mean of 3.74 and standard deviation of 1.21. This contradicts Kivaya, Kemboi and Odunga, (2020) study on the moderating role of firm size on corporate governance and financial performance of microfinance institutions in Kenya was done in Nairobi City County where they found that board independence, board expertise have a negative and significant association with financial performance

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The study established that the levels upon which a decision passes before it is being implemented influences performance of SACCO as shown by a mean of 3.62 and standard deviation of 1.17. This agrees with Kyoa (2017) who examined board composition on the operational efficiency of regulated SACCOs where he found a favorable correlation between operational effectiveness and performance. The findings contradicts Obaje, Abdullahi and Ude, (2021) who examined the moderating effect of firm size on the relationship between board structure indicated by board size, board independence and board gender diversity and financial performance indicated by return on assets of quoted deposit money banks in Nigeria where they established that board independence moderated by firm size had a negative significant effect on ROA.

Centralization of decision making influences financial performance of SACCOs as shown by a mean of 3.79 and a standard deviation of 1.24, this agrees with Badara (2016), in his examination on the moderating effect of firm size on the relationship between board structure and financial performance of Deposit Money Banks in Nigeria where he established a relationship exist between determinants of board independence and financial performance moderated by firm size.

The study established that academic qualification of board members has the effect of the financial performance of SACCO for it had a mean of 3.75 and a standard deviation of 1.19. This findings resonate with Kyoa (2017) who found that improving board composition have a beneficial effect on how SACCOs operate and this is enhanced through creating gender balance, improvement of education qualification, increase in director’s independence, and improving compensation of share ownership of the board.

The mean of 3.70 and a standard deviation of 1.2 imply that the number of outside directors has an effect on performance of SACCO. This concurs with Ruto, Naibei, and Cheruiyot (2017) who looked into the structure, degree of independence, and Financial Performance of a few Kericho County SACCOs' boards of directors where they established that board composition assisted in maximizing the wealth of shareholders.

To test the study hypothesis, a simple linear regression was conducted, producing three outputs including model summary, ANOVA and coefficients.

Table 2: Model Summary for board composition

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.728[a]	.530	.528	.75940

a. Predictors: (Constant), Composition

Source: Researcher (2024)

R square of 0.530 was also established, implying that board composition accounts for a notable 53.0% of the variance in financial performance while the balance of 47.0% is accounted for by factors excluded in the regression model.

Table 3: ANOVA Statistics for board composition

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	133.933	1	133.933	232.243	.000[b]
1	Residual	118.799	206	.577		
	Total	252.732	207			

a. Dependent Variable: Performance

b. Predictors: (Constant), Composition

Source: Researcher (2024)

According to Table 3, ANOVA statistics was found to be significant (F=232.243, p <0.05), implying that the regression model adopted was statistically significant, and can be relied upon to make further inferences. The regression Sum of Squares was recorded at 133.933 out of 252.799, further confirming that board composition accounts for a notable 53.0% of the variance in financial performance while the balance of 43.0% is accounted for by factors excluded in the regression model as indicated by the residual sum of squares (118.799).

Table 4: Coefficients for board composition

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.871	.184		4.729	.000
	Composition	.723	.047	.728	15.240	.000
a. Dependent Variable: Performance						

Source: Researcher (2024)

A beta coefficient of 0.723 was recorded in board composition, implying that keeping other factors constant, a unit change in board composition would result in 0.723 change in financial performance. The finding was also significant at 95% confidence level ($p < 0.05$), indicating that board composition has a statistically significant relationship with financial performance.

The study thus rejects the first null hypothesis that states that: There is no statistically significant moderating effect of firm size on the relationship between board composition and the financial performance of regulated SACCOs in South Rift Region, Kenya ($H_0 1$).

The beta coefficient of 0.723 in board composition signifies the strength and direction of the relationship between corporate governance and financial performance in the context of regulated SACCOs in Kenya. Therefore, the statistically significant relationship between board composition on financial performance ($\beta = 0.723$, $p = 0.000$) emphasizes the practical importance of Boarding Composition as indicated CEO Duality, Independence of Board, Director's expertise in SACCOs thus impacting on policy implications, as it suggests that improving board composition can lead to enhanced financial performance. The results align well with the findings of Kyoa (2017) who examined board composition on the operational efficiency of regulated SACCOs where he found a favorable correlation between operational effectiveness and performance. The findings contradicts Obaje, Abdullahi and Ude, (2021) who examined the moderating effect of firm size on the relationship between board structure indicated by board size, board independence and board gender diversity and financial performance indicated by return on assets of quoted deposit money banks in Nigeria where they established that board independence moderated by firm size had a negative significant effect on ROA.

4. CONCLUSION

The study concludes that SACCO performance is as a result of the composition of the Board of directors and that the levels upon which a decision passes before it is being implemented influences performance of SACCO. Centralization of decision making influences financial performance of SACCOs and that academic qualification of board members effect of the financial performance of SACCO and that the number of outside directors has an effect on financial performance of SACCO.

The study recommends that SACCOs levels upon which a decision passes before it is being implemented need to be reviewed since it influences performance. SACCOs need to establish several departments to deal with a specific issue in the organization and ensure that they comply with rules and regulations regulating capital requirements of the banking industry.

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