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INFLUENCE OF BOARD DIVERSITY ON PERFORMANCE OF DEPOSIT TAKING SACCOS IN KENYA

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Abstract: **The study objective was to establish the extent to which Board Diversity influences performance of Deposit Taking SACCOs in Kenya. The study was based on the domain of corporate governance and anchored on the theoretical postulations of Resource Dependence Theory. The purpose of the study was to enrich the existing knowledge about embracing board diversity to enhance performance. Understanding the influence of board diversity is crucial in suppoting the development of corporate governance realm in both policy and academia spheres. The study adopted descriptive cross-sectional survey and correlational research designs. The study used proportionate stratified and simple random sampling technique to select a sample size. Data was analysed through descriptive statistics, content analysis, Pearson's correlation, hypotheses testing, and regression analytical approaches. Findings suggest an overall correlation coefficient for Board diversity and performance of deposit taking SACCOs in Kenya. The study concluded that there is a significant relationship between Board diversity and performance of deposit taking SACCOs in Kenya. The study recommends that dertemination of board size should be depedent on organisational operations and existing regulations. Further, more women in boards to ensures diversity, legitimacy and build trust. Separation of roles and capping the directors' incentive act to safeguard stakeholders' interest. Areas for future studies are exploration of other dimensions of board diversity in different contexts to corroborate these findings.**

Keywords: **Board Size, Gender, Compensation, Leadership, Pefomance, Deposit-Taking-Saccos.**

1. INTRODUCTION

1.1 Introduction

Diversification is a hot topic in the world of corporate governance with the board leadership in agreement about the benefits of a diverse board. In recent corporate governance research, board diversity and their relation to firm performance has received major attention (Makhlouf, Laili, Basah and Siam, 2015). Resource dependency theory advocates for diversity considerations during board formation (Hillman *et al*., 2009). The board is the apex in matters regarding making strategic decisions; they operate as the representatives of the firm's stockholders (Pearce, Robinson and Mital, 2008). The codes of corporate governance grants board the formal authority to monitor managerial performance and achieving an adequate return for shareholders, while preventing conflicts of interest and balancing competing demands on the corporation (Capital Markets Authority, 2015; OECD, 2015). Pressure to appoint directors with diverse backgrounds is to ensure that the owners' interests is protected. Board is designed to address the conflicts of interest between managers (agent) and shareholders (principal) and to bring their interests into congruence (Kiambati, Ngugi, Katuse and Waititu, 2013). The board is an important internal governance control mechanism (Agrawal and Knoeber, 1996; Fama and Jensen, 1983) for aligning the interests of managers and all stakeholders to a firm (Agrawal and Knoeber, 1996).

Today's business organisations are increasingly becoming diverse at both employee, top management, and leadership levels. Organisations have embraced diverse teams in terms of tenure, experience, gender, age, ethnicity, educational background, and socioeconomic status. Board diversity includes the composition, the characteristics and the structure of corporate boards and board process (Zahra and Pearce, 1989). Abdullah and Ismail (2013) argued that even though board diversity is seen as important, it is only relevant if it helps to enhance board effectiveness and thus the performance; otherwise, board diversity might be regarded as 'tokenism' or be done to comply with societal pressure. This study explores the board size, compensation and leadership and their relationship on performance.

There is no universal agreement on the optimum size of a board of directors. Scholars and policy makers have advocated for different requirement (Kamaara, Gachunga and Ogutu, 2013; Kyereboah-Coleman and Biekpe, 2007; Yasser, Entebang and Mansor, 2011) in different contexts and firm size (Republic of Kenya, 2015). Several studies (Adebayo, Olusola and Oyewole, 2013; Kyereboah-Coleman and Biekpe, 2007) have recommended for a small board size. Chenuos, Mohamed and Bitok (2014) and Wambua (2013) recommended for a lean, moderate, standard size board of director that would facilitate maximum efficiency and effectiveness (Republic of Kenya, 2015). Large board sizes are considered less effective for firm performance (Jensen, 1993; Lipton and Lorsch, 1992), act as a source of confusion to the CEO and management by giving diffuse advisories to the management (Lekaram, 2014). They may take a longer time to react to market dynamics (Guest, 2009; Lekaram, 2014). The implications is that large boards can be a disadvantage and expensive for the firms to maintain. Planning, work coordination, decision-making and holding regular meetings can be difficult with a large number of board members. Babatunde and Olaniran (2009) contend that regulatory agencies should encourage firms to achieve a reasonable board size since overly large boards may be detrimental to the firm. However, Kiel and Nicholson (2003) and Waithaka et al. (2013) advocates for large board because they are effective and they enhance women representation (Letting' , Aosa and Machuki, 2012), offer a balance of skills, and experience (Kamaara et al., 2013; Mori and Olomi, 2012) that influences the performance. The underlying issue is that small board sizes could lead to a sub-optimal decision-making body. It remains debatable the critical mass of board size required for improved performance in different contexts. The general agreement remains that the board size should not compromise the desired diversity.

Board remuneration has attracted considerable interest amongst financial analysts and scholars as it is seen to be a deterrent to financial scandals that have rocked corporates in the 21st Century (Ruparelia and Njuguna, 2016). It is an important mechanism for soliciting effort and rewarding productivity. A substantial and influential literature has emerged on CEO compensation and the performance of corporate entities; relatively little is known about the Board compensation (Doucouliagos, Askary and Haman, 2006). Since the financial crisis of 2007–2008, the issue of Director's compensation has attracted the interest of policy makers leading to introduction of a series of regulatory framework. One of the key objectives is to deal with agency problems (Jensen and Meckling, 1976). Board compensation as a corporate governance mechanism is used to encourage management to run a firm in the interest of shareholders (Fan, 2012). This involves the shareholders attaching their financial benefits to compensation paid to Directors as a way to resolve agency issue. Ruparelia and Njuguna (2016) found significant variations in the level of board remuneration across the companies and a significant relationship between board remuneration and DY, but not ROA, ROE, and EPS. However, it remains unclear how to link board compensation with performance.

Traditionally, the compensation of director's and CEO has associated with performance. But there has been an exponential increase in all the pay levels of directors and CEOs irrespective of their performances (Sheikh and Wang, 2012). However, findings reported by various studies show conflicting results. There are several possible explanations for conflicting results. The first is that there are institutional differences across countries in which these studies were carried out. For instance, there are differences in studies conducted in European and Western context (Gupter, Kennedy and Weaver, 2006; Stanwick and Stanwick, 2010) and other studies are conducted in Asian countries (Haat, Abdul and Mahenthiran, 2008; Ghazali, 2010) as well as in Middle Eastern countries such as Egypt (Kholeif, 2008) and Iran (Mashayekhi and Bazaz, 2008) and others in African countries. The intra-countries institutional differences partially explain the governance-performance relationship inconclusive results and, at the same time, raises concern about whether the principles of corporate governance which originated from developed countries are applicable in other countries. Despite having corporate governance issues in Kenya, studies on the link between board remuneration and firm performance of Saccos are limited.

Organisations have a board leadership that is joint or separated. The separate board leadership structure ensures adequate monitoring of the actions of top management and evaluation of their performance (Gabrielsson, Huse and Minichilli,

2007). The Chairperson runs the board while the CEO has a delegated responsibility of day-to-day business. Dalton, Daily, Ellstrand and Johnson (1998) argue that the preference for the separate board leadership structure is largely grounded in agency theory. This concerns the potential for management domination of the board. The joint structure that is supported by stewardship theory achieves higher shareholder returns (Donaldson & Davis, 1991). It provides a unified firm leadership and removes any internal or external ambiguity regarding who is responsible for firm processes and outcomes. However, a meta-analytic review by Dalton *et al.* (1998) indicates that neither the joint, nor separate, board leadership structure has been strongly supported as enhancing firm financial performance.

Just like other business entities, Deposit Taking Saccos are required by law to embrace diversity at both employee, top management, and leadership levels. In 2013, Abdullah and Ismail argued that even though board diversity is seen as important, it is only relevant if it helps to enhance board effectiveness and thus the performance; otherwise, board diversity might be regarded as 'tokenism' or be done to comply with societal pressure. Board diversity includes the composition, the characteristics and the structure of corporate boards and board process (Zahra and Pearce, 1989). In this study, board diversity is operationalized as board size, compensation, and leadership.

1.2 Statement of the Problem

The Kenyan SACCO Sub Sector has witnessed rapid growth, making an important contribution to financial access reaching 13 per cent of the population (Republic of Kenya, 2007). The growth in financial access is on account of financial technology and innovations especially in mobile money and mobile banking [Central Bank of Kenya (CBK), Kenya National Bureau of Statistics (KNBS) and Financial Sector Deepening Trust (FSD) Kenya, 2021] and expanding membership base (SASRA, 2021). Apart from the commercial banking sector, Deposit Taking Saccos remain the single largest formal financial credit service provider to household economies in Kenya (SASRA, 2018). This is attributed to fact that the members' savings can be treated as collateral for borrowing at the same time earn interest from the surplus made by the SACCO. However, despite the significant role in the financial sector, the sub sector is confronted with a host of challenges stemming from a dynamic and demanding environment. They include but not limited to gross mismanagement, financial scandals and management problems which has resulted to low performance and collapse of some Saccos (Ngumo, 2006).

Sacco Societies Regulations 2010 was enacted as a fundamental change to address these challenges and respond to the evolving and changing needs of Kenyan society. The purpose of SACCO Societies Regulations 2010 and development of corporate governance guidelines for the Deposit Taking Saccos was to address bad corporate governance among other issues. Bad governance is increasingly regarded as one of the root causes of all-evil within the business environment (Yap, 2009). Board of directors have a role to play to ensure the interest of Sacco members is protected. Significant, is the need for empirical investigation for a common understanding whether embracing board diversity ultimately leads to performance. Locally, Muchiri and Kimungunyi (2018) focused on effects of Corporate governance on Financial performance of Microfinance Institutions regulated by SASRA in Kenya over a period of eleven years from 2005-2016. Munene, Ndegwa, Senaji and Mugambi (2020) sought to establish the role of board characteristics in the financial distress suffered by Deposit Taking SACCOs in Nairobi County. Globally, EmadEldeen, Elbayoumi, Basuony and Mohamed (2021) examined the effect of board composition specially board diversity on firm performance of non-financial companies listed at London Stock Exchange. Bin Khidmat, Ayub Khan and Ullah (2020) examined the impact of board diversity on the Chinese A-listed firm's performance.

Hence, this study sought to fill the existing knowledge gap by enriching the existing knowledge about embracing board diversity to enhance performance. Understanding the influence of board diversity is crucial in suppoting the establishment of good governance practices for the Deposit Taking Saccos. This study sought to fill the missing knowledge gap about board diversity towards the development of corporate governance realm in both policy and academia spheres.

1.3 The Study Objective

To establish the extent to which Board Diversity influences performance of Deposit Taking SACCOs in Kenya.

1.4 Hypothesis for the Study

There is no significant relationship between Board Diversity and performance of Deposit Taking SACCOs in Kenya.

2. LITERATURE REVIEW

2.1 Theorotical Framework

In the 1970s, Pfeffer and Salancik in their publication of the *The External Control of Organizations: A Resource Dependence Perspective* in 1978, proposed Resource Dependence Theory. Resource Dependence Theory proposes five pillars that firms can enact to minimize environmental dependences. They include mergers/vertical integration, joint ventures and other inter-organizational relationships, boards of directors, political action, and executive succession (Hillman *et al*., 2009). Specifically, Resource Dependence Theory explain the critical resources that organization must have in place for its survival. Pfeffer and Salancik (2003) observed that the key to organizational survival is the ability to acquire and maintain resources. However, the problem is that organisations are not in complete control of all the resources they require. Central to this theory, is the place and role of board of directors in matters regarding to making strategic decisions; and as the representatives of the firm's stockholders (Pearce, Robinson and Mital, 2008).

Boards bring four benefits to organizations: information in the form of advice and counsel, access to channels of information between the firm and environmental contingencies, preferential access to resources, and legitimacy (Pfeffer and Salancik, 1978). Resource Dependence Theory aids in understanding the role of boards in enhancing the performance of their organizations. The assertion is that boards enable firms to minimize dependence or gain resources. The resource dependence postulations suggest that the board of directors' act as a link with the external environment in supporting the management in the achievement of organizational goals. Pfeffer (1972) asserts that boards enable firms to minimize dependence or gain resources. Boards of directors provide expertise, skills, information, and potential linkage with environment for firms (Ayuso and Argandona, 2007). Resource Dependence Theory concentrates on the role of board directors in provision of access to resources needed (Abdullah and Valentine, 2009) for their sustained performance. Kor and Misangyi (2008) notes that resource provision by board is much highly valued and supplementary to the experience provided by top management teams.

According to the Resource Dependence Theory the primary function of the board of directors is provision of resources to their organizations. With the perception that directors are considered as resource providers, various dimensions of director diversity clearly become important during the constitution of boards. The theory's major limitation is its assumption that organizations are shaped primarily by materialistic forces; it fails to delineate the relationship shared between the environment and organization, (Johnson, 1995). The theory fails to focus on other internal and external forces that can shape the direction of an organization. Hence, this study was anchored on the resource dependency postulations as stated by Pfeffer and Salancik's (1978) and Hillman *et al*. (2009), as an important basis for the conceptualization of board diversity.

2.2 Empirical Review

In 2002, Mak and Kusnadi compared corporate governance mechanisms adopted by 550 firms listed on the Singapore Stock Exchange and Kuala Malaysia Stock Exchange on the Tobin's Q for each company for the 1999 or 2000 financial years. The study was conducted after two events in both the countries; after the financial crisis and implementation of corporate governance reforms. In their study, the financial variables were firm size, leverage, ratio of total fixed asset to total assets, ratio of firm size to total assets, and natural logarithm of firm size while the board variables were board size, board leadership, proportion of executive and independent directors. The sample consisted of 271 and 279 firms that are listed in the Singapore Stock Exchange and Kuala Lumpur Stock Exchange respectivelly. The study relied on secondary data on financial, board composition, ownership structure, and other relevant data that was retrieved from the annual reports of companies and Datastream. Descriptive statistics, regression, and multivariate tests were adopted for data analysis. Mak and Kusnadi found little evidence of relationships between most corporate governance mechanisms and Tobin's Q. Specifically, there was negative relationship between board size and firm value. Further, Board leadership and composition were found to have no effect on firm value. They concluded that the results on the relationship between board size and firm value appears to be generalizable to environments with widely different corporate governance systems. The current study investigated the effect of board variables (board size, board leadership, proportion of executive and independent directors) on the Tobin's Q from Singapore and Malaysian listed firms for the 1999 or 2000 financial years. This study investigates the influence of board diversity (measured by board size, compensation, and leadership) as an aspect of corporate governance mechanisms on performance of Deposit Taking SACCOs in Kenya.

A study of 241 of the leading global companies by the Eversheds Board Report (2011) investigated the impact of board composition on company performance for the period 2007-2009. 50 directors were selected randomnly, interviewed from a sample that was drawn from the largest listed companies in the UK (FTSE 100 and 250), the US (S&P 100), Continental Europe (EuroStoxx 50), the Far East (Hang Seng) and Australia (S&P/ASX50) across a number of sectors. Key study findings is that smaller, independent and diverse boards do better. Specifically, the study found that better performing companies had fewer directors in total on their boards and higher proportion of female board directors. The age of directors had no significant relationship with company performance. However, during the financial crisis, boards with younger directors performed slightly better than those with older directors. The current study focussed on board composition on performance of listed firms from developed economies for the period 2007-2009. This study investigates board diversity in its association with the performance of the DT Saccos in an emerging economy for the period 2014-2018.

Kamaara *et al.* (2013) employed descriptive research design, quantitative and qualitative approaches to assess the relationship between the board of directors' composition and performance of 29 Commercial State Corporation in Kenya. Board of directors' composition was deconstructed as size, gender and representation of the board members. Using stratified random sampling, a sample of 100 management executives was selected. The questionnaire was used to collect primary data. Kamaara *et al.* (2013) found that there is a relationship between the board of directors' composition and the performance of Commercial State Corporations in Kenya. Further, compliance to 30% gender representation was still unaccomplished. Their study recommended that in the board composition, state corporation size, gender, and independence be considered in the appointment of board directors. Limitation of the study was that some of the relevant information related to board of directors was deemed sensitive; hence, respondents didn't divulge it. This current study built on the recommendation by Kamaara *et al.* (2013) to assess compliance to attaining the recommended board size and gender representation.

In a study of 150 bank holding companies over an eleven-year period from 1999 to 2009, O'Sullivan, Mamun and Hassan (2016) examined the relationship between several board characteristics and performance. Panel methodology was applied with the directors and management executives being the respondents. O'Sullivan, Mamun and Hassan (2016) found that board size, CEO tenure and board tenure enhance bank performance. There was no evidence of board structure or CEO power influencing bank performance. The study revealed that board size has a negative effect on Tobin's Q and the non-performing asset ratio during the period of crisis. Still during a period of crisis, non-performing asset ratio was found to decrease with board independence, while frequency of meetings decreases bank performance. Frequency of board meetings had no relationship with firm performance either during normal times or during the crisis.

In Kenya, specifically Kericho County, Ruto, Naibei and Cheruiyot (2017) used descriptive research design survey to establish the effect of composition of Board of directors and level of Independence on financial performance of selected SACCOs. 119 respondents were selected from a population of 169 top management, SACCOs staff and members using stratified simple random sampling techniques. Primary and seconday data was collected and analysed using qualitative and quantitative techniques. Results revealed that board diversity increases the organisational access to external resources due to individual board member contribution. Further, women and minority board members positively influence the performance of SACCOs. Whereas Ruto, Naibei and Cheruiyot study focussed on financial performance of selected SACCOs in Kericho County, this study focusses on board diversity and performance of Deposit Taking SACCOs in Kenya.

Muchiri and Kimunguyi (2018) adopted descriptive design to study the effects of corporate governance on financial performance of Microfinance Institutions in Kenya over a period of eleven years from 2005-2016. A sample size of 116 CEOs were selected from a target population was the 163 CEOs using stratified sampling technique. Primary data was collected using structured questionnaires, while seconday data was collected from the financial reports. Descriptive statistical techniques, Inferential statistics, correlations, and multiple regressions were used in data analysis. The study found that board diversity is positively related to financial performance of micro finance institutions. While Muchiri and Kimunguyi focused on board diversity (measured by gender diversity, board members' expertise and age diversity) on the relationship with performance (measured by ROA and ROE) of Microfinance Institutions in Kenya, this study focusses on board diversity (measured by board size, board compensation and board leadership) and performance (measured by both financial and non-financial aspects) of Deposit Taking SACCOs in Kenya.

Munene, Ndegwa, Senaji and Mugambi (2020) sought to establish the role of board characteristics in the financial distress suffered by Deposit Taking SACCOs in Nairobi County. Descriptive research design and census strategy was adopted, Nairobi County was purposively chosen. The study used secondary data collected from SASRA and a panel data analysis performed using STATA software. The study found a relationship between board characteristics and financial distress of Deposit Taking SACCOs. Board composition, board education and board tenure have statistically significant and negative influence on financial distress. The study concluded that need for lean Sacco boards, more women on boards, more inclusion of members with high and relevant education credentials, and SACCOs should have term limits for their members.

EmadEldeen, Elbayoumi, Basuony and Mohamed (2021) examined the effect of board composition specially board diversity on firm performance using cross-sectional data from London Stock Exchange of non-financial companies for the years 2000–2016. Board diversity was deconstructed into age, gender, education, and nationality. Descriptive statistics was applied and Ordinary least squares for testing hypotheses. Results revealed that age diversity and education have a negative effect on firm performance, while education diversity doesn't. Gender diversity was found to have positive effect on firm performance, while nationality diversity has a positive effect on firm performance. The study sample was limited to only the non-financial companies and performance was measured by using only ROA and Tobins Q. Areas of further research include the effect of the board diversity for both Executive and non-executive directors on the firm performance.

Drawing on the upper echelon's theory and the resource-based theory, Bin Khidmat, Ayub Khan and Ullah (2020) examined the impact of board diversity on firm's performance. Data was collected from A-listed companies registered in Shanghai SSE 180 and the Shenzhen 100 for the period 2007 to 2016. Fixed effects model and panel generalised method of moment estimation were applied to cater the endogeneity problem. The study controlled for several firms and board characteristics. Results revealed that gender diversity, education diversity and foreign national diversity have a positive and significant effect on firm performance. The study concluded that age and independence diversity seemed not to be an essential determinant of firm performance. The limitation of the study was unbalanced data since some of the companies got listed after 2007.

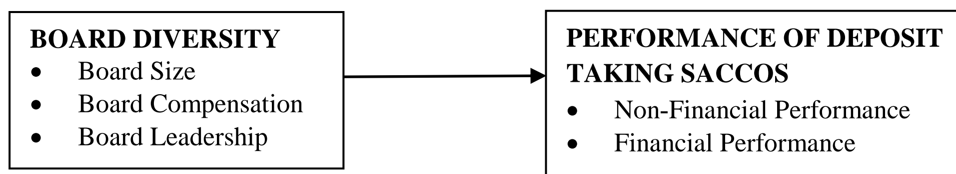

Figure 1: Conceptual Framework

3. METHODOLOGY

The research study was guided by pragmatic paradigm. Descriptive cross-sectional survey was adopted. Further, correlational research design was used to test the study hypothesis. The Target Population of study was 175 DT-SACCOs licensed undertake deposit-taking Sacco business. The study adopted a census approach of all the licensed DT-SACCOs.However, 3 licensed DT-SACCOs had their licenses revoked and not renewed while 22 DT-SACCOs failed to attain the licensing requirements as per the Sacco Societies Act. As a result, 150 DTS were eligible to participate in the study thereby constituting the targeted population. There were 10 key informants that were subjected to interview; this made the target population to be 160. Random and stratified sampling were adopted to dertemine a sample size of 108. The study collected primary data using a semi structured questionnaire, secondary data collection sheet was used to collect secondary data drawn from SASRA annual supervision reports. Further, an interview guide was used. 11 respondents were identified through random sample for pilot study. Data was analyzed using both descriptive and inferential statistic. The results of the statistical analysis were presented using tables and frequencies.

4. FINDINGS

4.1 Descriptive Statistics

4.1.1 Board Size and Performance of Deposit Taking Saccos

The study sought to find out the Sacco board size as this is important as the size of the board has implications on decision making process. The result is presented in Table 1.

Table 1: Descriptive Statistics for Board Size

Board size	Frequency	Percent
Less than 5	3	2.9
6 -7	15	14.3
8 - 9	55	52.4
10 - 11	7	6.7
12 or more	25	23.8
Total	**105**	**100.0**

Table 1 shows that out of 105 respondents who participated in the study, 3(2.9%) had less than 5 directors, 15(14.3%) had 6-7 directors, 55(52.4%) had 8-9 directors, 7(6.7%) had 10-11 directors and 25(23.8%) had 12 and more than directors.

4.1.2 Presence of Female Directors in the SACCO boards and Performance of Deposit Taking Saccos

The study sought to find out the presence of female directors in the SACCO boards. This is important has gender balancing in the boards has a bearing on innovation, decision-making processes, monitoring, supervisory and advisory roles. The findings are shown in Table 2.

Table 2: Descriptive Statistics for Presence of Female Directors in SACCO boards

Number	Frequency	Percent
None	28	26.7
1 - 2	50	47.6
3 - 4	22	21.0
5 or more	5	4.8
Total	**105**	**100.0**

Table 2 shows that out of 105 respondents who took part in the study, 50(47.6%) of the studied DTSs have 1-2 female directors. While 28(26.7%) of the DTSs had no female directors, 22(21%) of the studied SACCOs have 3–4 female directors while 5(4.8%) have more than 5 female directors. The finding implies that 50(47.6%) of the studied Saccos had 1 – 2 female directors. This can be attributed to the prevailing government policies, legal and regulatory frameworks initiated over the years requiring organizations to consider gender balance during their nomination, appointment, and recruitment processes. In addition, the exponential growth of women directors can be linked to recent rise of women in leadership and management positions.

4.1.3 Directors' Compensation and Performance of Deposit Taking Saccos

The study sought to establish how directors' compensation influences performance of Deposit Taking Saccos. The results are presented in Table 3.

Table 3: Descriptive Statistics for Directors' Compensation

Statements	Yes	No	n	%Total
a. Are your directors paid Director's fees	31(29.5%)	74(70.5%)	105	100
b. Are your directors paid Attendance fees	96(91.4%)	9(8.6%)	105	100
c. Are your directors paid both Director's and Attendance fees	24(22.9%)	81(77.1%)	105	100
d. In case your SACCO offers attendance fees, is the total amount of attendance fees capped?	85(81%)	20(19%)	105	100
e. Does your organization offer other benefits to Non-Executive Directors?	35(33.3%)	70(66.7%)	105	100

The results in Table 3 show that 74(70.5%) of the respondents stated that their board directors are not paid the directors' fees while 31(29.5%) of the respondents said that their directors are paid. The finding suggests that only a third of surveyed Saccos pay directors' fees as a compensation for their board responsibilities. The finding is in line with SASRA regulations that directors are not entitled to receive remuneration in form of salary for the services they provide to the Sacco. An overwhelming 96(91.4%) of the respondents indicated that their directors are paid for attendance during board sittings with 9(8.6%) not paying. This implies that majority of the Saccos compensate their directors for their attendance at board meetings or board committee meetings. The finding suggests that a consistent attendance of board meetings by directors is a perceived indicator of good monitoring activities of the board. Further, majority of the respondents at 85(81%) reported that the total amount of attendance fees paid to directors is capped. This implies that the Saccos have

put in place a financial and moral control mechanism to avoid situations where attendance to meetings is linked to a string of perks. It further implies that the board as the apex in matters regarding making strategic decisions are only limited to critical meeting sessions that shape mission-related goals and initiatives. This finding is in support of agency theory on basis that uncontrolled meetings may leads to high director workloads, waste directors' time and increase financial burden to the organization. On the statement whether the studied Saccos pay their directors both directors and attendance fees, 81(77.1%) of the respondents indicated they are not compensated. Based on table 4.10, this finding suggests that Saccos mainly compensate their directors for their participation in board meetings. This is consistent with SASRA regulations which require Saccos to compensate their directors a reasonable expense during their tenure. On the statement whether non-executive directors are offered fringe benefits, 70(66.7%) of the respondents reported that their SACCOs do not offer fringe benefits with 35(33.3%) of the respondents reporting they do. The study found that non-executive directors receive fringe benefits inform of dividends, loans, allowances (travelling, duty, mileage and subsistence), medical cover, sitting honoraria, training opportunities, monthly airtime and honoraria at end of year which positively influence performance of the Saccos.

4.1.4 Board Leadership and Performance of Deposit Taking Saccos

The study sought the opinion of the respondents in their level of agreements or disagreements with the statements using a 5-point Likert Scale of 1-5 whereby: 1-Strongly Disagree (SD), 2-Disagree (D), 3-Undecided (U), 4-Agree (A) and 5-Strongly Agree (SA). The results are presented in Table 4.

Table 4: Descriptive Statistics for board Leadership

Statements	SA	A	UD	D	SD	Mean	SD
a. The CEO and board chairperson help the board to monitor the actions of top management and evaluate their performance	42(40.0%)	52(49.5%)	0(0.00%)	4(3.8%)	7(6.7%)	4.12	1.071
b. Having both the position of Board Chairperson and CEO ensures that the management do not dominate the board	32(30.5%)	41(39.0%)	10(9.5%)	13(12.4%)	9(8.6%)	3.70	1.263
c. Having both the position of Board Chairperson and CEO ensures SACCO has a unified leadership	42(40.0%)	38(36.2%)	9(8.6%)	8(7.6%)	8(7.6%)	4.02	1.240
d. Having both the position of Board Chairperson and CEO improves our SACCO progress and growth	48(45.7%)	36(34.3%)	4(3.8%)	9(8.6%)	8(7.6%)	3.93	1.219
Composite mean and Composite standard deviation						**3.92**	**1.198**

Table 4 findings, on whether that the CEO and board chairperson help the board to monitor the actions of top management and evaluate their performance' had a mean of 4.12 and a standard deviation of 1.071. The results indicated that out of 105 respondents (CEOs, Managers and Sacco employees) who participated in the study, 42(40%) strongly agreed, 52 (49.5%) agreed, 4(3.8%) disagreed, whereas 7(6.7%) strongly disagreed that the CEO and board chairperson help the board to monitor the actions of top management and evaluate their performance. The line statement mean of 4.12 was above the overall mean of 3.92. The implication of the result to the study is that the study respondents agreed that the CEO and board chairperson help the board to monitor the actions of top management and evaluate their performance and hence imply that Board diversity involving CEO and board chairperson in monitoring the actions of top management and evaluation of their performance influence positively performance of deposit taking SACCOs. The lower line item Standard Deviation of 1.07 than composite Standard Deviation of 1.198 indicate that there is convergence opinion. On whether having both the position of Board Chairperson and CEO will ensure that the management do not dominate the board had a mean of 3.70 and a standard deviation of 1.263. The results indicated that out of 105 respondents who participated in the study, 32(30.5%) of respondents strongly agreed, 41(39%) agreed, 10(9.5%) were neutral, 13(12.4%) strongly disagreed while 9(8.6%) strongly disagreed that having both the position of Board Chairperson and CEO ensure that the management do not dominate the board. The line statement means of 3.70 were slightly below the overall mean of 3.92. The implication of the result to the study is that the study respondents agreed that having both the position of Board Chairperson and CEO will ensure that the management do not dominate the board and hence imply that Board diversity having both the position of Board Chairperson and CEO will ensure that the management do not dominate the board

thereby moderately influence of performance of deposit taking SACCOs. The higher line item standard deviation of 1.263 than composite standard deviation of 1.198 indicate that there is divergence view. On whether that having the two positions of Board Chairperson and CEO ensures unified SACCO leadership had a mean of 3.93 and a standard deviation of 1.219. The results indicated that out of 105 respondents who participated in the study, 42(40%) of the respondents strongly agreed, 38(36.2%) agreed, 9(8.6%) remained neutral, 8(7.6%) disagreed with 8(7.6%) strongly disagreed. The line statement means of 3.93 were above the overall mean of 3.92. The implication of the result to the study is that the study respondents agreed that having the two positions of Board Chairperson and CEO ensures unified SACCO leadership and hence imply that Board diversity having the two positions of Board Chairperson and CEO positively influence performance of deposit taking SACCOs. A higher line item standard deviation of 1.219 than the composite standard deviation of 1.198 shows that there is still divergence view in opinion. On whether, that having both the position of Board Chairperson and CEO improves SACCO progress and growth had a mean of 4.02 and a standard deviation of 1.240. The results indicated that out of 105 respondents who participated in the study, 48(45.7%) of the respondents strongly agreed, 36(34.3%) agreed, 4(3.8%) were neutral, 9(8.6%) disagreed while 8(7.6%) strongly disagreed that having both the position of Board Chairperson and CEO improves their SACCO progress and growth. The line statement means of 4.02 were above the overall mean of 3.92. The implication of the result to the study is that the study respondents agreed that having both the position of Board Chairperson and CEO improves their SACCO progress and growth and hence imply that Board diversity having both the position of Board Chairperson and CEO which improves SACCO progress and growth positively influence performance of deposit taking SACCOs. A higher line item standard deviation of 1.240 than the composite standard deviation of 1.198 shows divergence in opinion.

4.2 Correlation Analysis

The study sought to examine the relationship between Board diversity and performance of deposit taking SACCOs in Kenya, Pearson correlation coefficient was used to test the null hypothesis; $H_{0:}$ There is no significance relationship between Board diversity and performance of deposit taking SACCOs in Kenya. The correlation results are shown in Table 5.

Table 5: Correlation of Board Diversity and Performance of Deposit Taking SACCOs

Board diversity Statements		**Performance of Deposit Taking SACCOs**
1.The CEO and board chairperson help the board to monitor the actions of top management and evaluate their performance	Pearson Correlation	0.146
	Sig. (2-tailed)	0.136
	n	105
2. Splitting the position of Board Chairperson and CEO ensures that the management do not dominate the board.	Pearson Correlation	0.199*
	Sig. (2-tailed)	0.042
	n	105
3.Splitting the position of Board Chairperson and CEO ensures SACCO has a unified leadership	Pearson Correlation	0.155
	Sig. (2-tailed)	0.114
	n	105
4.Splitting the position of Board Chairperson and CEO improves our SACCO progress and growth	Pearson Correlation	0.129*
	Sig. (2-tailed)	0.014
	n	105
Board Diversity (overall correlation)	**Pearson Correlation**	**0.229***
	Sig. (2-tailed)	**0.019**
	n	**105**

*Correlation is significant at the 0.05 level (2-tailed)

From the correlation results obtained in Table 5, two statements of Board diversity (Statement 2 ‘Splitting the position of Board Chairperson and CEO ensures that the management do not dominate the board’. *P-values*=0.042<0.05, r=0.199 and Statement 4 ‘Splitting the position of Board Chairperson and CEO improves our SACCO progress and growth’ *P-values*=0.014 <0.05, r=0.129) were statistically significant. However, two statements of Board diversity (Statement 1 ‘The CEO and board chairperson help the board to monitor the actions of top management and evaluate their performance’ *P-values*=0.136>0.05, r=0.146 and Statement 3 ‘Splitting the position of Board Chairperson and CEO ensures SACCO has a unified leadership’ *P-values*=0.155>0.05, r=0.114) were not statistically significant. The overall correlation coefficient

based on the various constructs of board diversity was found to be 0.229 with a *P-value* of 0.019<0.05. The implication of the finding to this study is that there is significant relationship between Board diversity and performance of deposit taking SACCOs in Kenya leading to rejection of the null hypothesis because the *p-value* of 0.019<0.05.

4.3 Regression Analysis

Simple linear regression was adopted to investigate how board diversity influence performance of deposit taking SACCOs in Kenya. The rational of using the simple regression model was to establish how board diversity as a predictor significantly or insignificantly predicted performance of deposit taking SACCOs in Kenya.

4.3.1 Model Summary

The model summary sought to establish if Board Diversity (X1) is a predictor that significantly or insignificantly predicted Performance performance of deposit taking SACCOs in Kenya. The regression model summary results are presented in Table 6.

Table 6: Model Summary of Board Diversity and Performance of Deposit Taking SACCOs

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.299[a]	0.053	0.043	0.55004

a. Predictors: (Constant), Board Diversity

Table 6 shows that the coefficient of determination (R square) of 0.053 indicated that the model explained only 5.3% of variance in Performance of Deposit Taking SACCOs, while the remaining 94.7% is explained by the other factors outside this model. Adjustment of the R square did not change the results substantially, having reduced the explanatory behavior of the predictor to 4.3%. The correlation coefficient (R=0.299) illustrates a weak positive correlation between Board Diversity and Performance.

4.3.2 ANOVA

The study conducted ANOVA analysis seeking to establish if the regression model is best fit for predicting Performance of Deposit Taking SACCOs. The ANOVA results are presented in Table 7.

Table 7: ANOVA of Board Diversity and Performance of Deposit Taking SACCOs

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.728	1	1.728	5.713	0.019[b]
	Residual	31.162	103	0.303		
	Total	32.890	104			

a. Dependent Variable: Performance of deposit taking SACCOs

b. Predictors: (Constant), Board Diversity

Table 7 show that regression fit the model for the data as F (1,103) = 5.713 since *P-value* = 0.019 (P value < 0.05), indicates that the model is statistically significant in explaining the extent to which board diversity influences performance of Deposit Taking SACCOs in Kenya.

4.3.3 Regression Coefficients

The study sought to establish whether there was influence of board diversity of Deposit Taking SACCOs in Kenya using regression coefficients. The simple linear regression coefficients results are presented in Table 8.

Table 8: Regression Coefficients of Board Diversity and Performance of Deposit Taking SACCOs

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.265	0.228		14.327	0.000
	Board Diversity	0.134	0.056	0.229	2.390	0.0192

a. Dependent Variable: Performance deposit taking SACCOs

b. Predictors: (Constant), Board Diversity

Table 8 shows that only the coefficient of the constant term (β = 3.265; *P-value*=0.000< 0.001) was statistically significant with the coefficient of independent variable (Board Diversity) having *P-value* = 0.0192 (*P value* < 0.05) statistically significant. The proposed regression equation and subsequent equation upon substitution are:

$Y = \beta_{01} + \beta_1 X_{1it} + e_{it1}$ .... (i)

Performance Deposit Taking SACCOs = $3.265 + 0.134X_1$

Where:

Y - Performance Deposit Taking SACCOs

X – Board Diversity

Thus, the study can develop a linear equation relating Board Diversity and Performance of Deposit Taking SACCOs in Kenya. This positive sign in the equation (i), indicates that the Performance of Deposit Taking Saccos increases when their boards are diverse.

4.4 Discussion of Findings

The study found out that majority of the SACCOs 70(66.7%) had 6-9 directors. This finding supports the SASRA recommendations that the size of the board should be between 5 and 9 directors (Republic of Kenya, 2015). Further, this finding supports studies by Kyereboah-Coleman (2007), Letting' *et al*. (2012) and Waithaka *et al*. (2003) who found similar results but there are wide variations in this variable. On the question of board size, Jensen (1993) had argued that large boards are less likely to function effectively. According to The Eversheds Board Report (2011), better performing companies had fewer directors in total on their boards. The implication is that DTSs with more complex operations have greater advising needs hence need for larger boards to facilitate maximum efficiency and effectiveness (Republic of Kenya, 2015). However, a study by Otieno *et al*. (2015) found that the relationship between size of the board and financial performance was insignificant. Further, O'Sullivan, Mamun and Hassan (2016) observed that during the crisis, board size has a negative effect on Tobin's Q and the non-performing asset ratio. Kamau *et al*. (2018) found that board size had very minimal influence on performance of financial institutions. Otieno *et al*. (2015) recommended that Sacco board size should be kept where financial performance is least affected adversely. It is evident that the size of the SACCO is a key factor in determining the appropriate board size which positively affect the performance of the Saccos. This result is reflecting contextual aspect of Kenyan Saccos environment, where requirement of a moderate board size is giving credence to agency theory. This implies that there is reduction of agency costs and inefficiencies in the functioning of the firm due to moderate board size which is likely to benefit the firm (Udayasankar, 2008). The bottomline is that SACCOs need to benefit inform of board wider experience and insights but at the same time, there is need to limit attendance to too many boards.

The study suggests low compliance on having women directors in the Saccos. According to the SASRA regulations, Saccos are required to consider gender parity during the constitution of their boards. Gender balancing in the boards ensures women directors bring in knowledge, experience, insights and values that shape decision-making processes, monitoring and advisory roles that ultimately affect performance (Post and Byron, 2014). Gender diversity can play an important role in supporting innovative activity and organizational change (Cheng and Groysberg, 2020). According to Erhardt, Werbel and Shrader (2003), Hussein and Kiwia (2009) and The Eversheds Board Report (2011) better performing companies had a higher proportion of female board directors. However, a 2015 meta-analysis by Post and Byron (2014) found mixed result on the relationship between gender diversity on boards and performance. Letting' *et al.* (2012), Mori and Olomi (2012) and Kamaara *et al.* (2013) observed that gender balance is still an evasive issue across all the sectors in Kenya and on global level (Cheng and Groysberg, 2020). Addressing gender imbalance on boards has to be tackled at the board appointment and recruitment phase (Cheng and Groysberg, 2020). This is the weak link that requires organizational restructuring to redress the gender imbalance in the board. However, with low compliance on consideration of gender parity in the constituted Sacco boards requires a redress. The implication of the study is that the well performing DTSs tend to appoint more females to their boards. Drawing on resource-dependence theory, this study is of the opinion that a diverse board with real and symbolic representations will hold greater legitimacy. Relational and moral legitimacy leads to increased perceptions of the board's trustworthiness which in turn fosters shareholders' trust in the firm (Perrault, 2014).

Directors' compensation is important as it acts as a deterrent to financial scandals that have rocked organizations (Ruparelia and Njuguna, 2016). Findings from previous studies such as (Aduda, 2011, Tarus, Basweti and Nyaoga, 2014, Ruparelia and Njuguna, 2016) remain mixed on the relationship between directors' compensation and performance in Kenya. Aslama, Harona and Tahir (2019) found a weak two-way relationship between the firm performance and CEO/executive director remuneration in Pakistan. The study found that Saccos are offering their Baords a set of fringe benefits offers. Though this is an important incentive it is important to cap it to the board and individual performance rather than being perceived as tokens. In support to recommendation by Aslama, Harona and Tahir (2019), asserts that organizations need to develop a Board Performance Plan that will help define the board activity with a commensurate compensation package. This implies that there will be viable directors' compensation plans to address any likelihood of agency problem.

Board leadership is the apex of the organization. The study findings reveal that both the CEO and board chairperson help the board to monitor the actions of top management and evaluate their performance, ensures a unified leadership and improves our organizational progress and growth. The result support findings by Waithaka et al., (2003) and Kapil and Mishra (2019). Kapil and Mishra observed that separated role of CEO and Chairman of board of directors ensures effective monitoring and evaluation of performance of top management. Organisations that have adopted the 2-tier board structure (have both the CEO and Board chairman positions) have minimal agency problems emanating from conflict of interest. Consistency with this finding, Waithaka *et al*., (2003) found a positive association between CEO non duality and performance. Separation of board roles ensure that the management do not dominate the board. The result supports the rationale behind agency theory (Jensen and Meckling 1976; Eisenhardt, 1989), in terms of controlling managerial behavior ensuring the interests of shareholders are protected. The result supports the findings by Gabrielsson, Huse and Minichilli (2007) who observed that separate board leadership structure ensures adequate monitoring of the actions of top management and evaluation of their performance.

The study finding is in cognizant that there has been concern that 2-tier board structure bring about bureaucracy and prolonged decision-making and implementation process. In principle, the board chair takes lead in making important strategic decisions and provision of strong oversight role over the CEO, who is the leader of operations (Price, 2018). Though, Mak and Kusnadi (2002) found that board leadership has no effect on firm value while Dalton et al. (1998) observed that neither the joint, nor separate, board leadership structure has been strongly supported as enhancing firm financial performance. The study finding reflects contextual aspect of the Sacco subsector in Kenya attempts to actualize corporate governance philosophy. Specifically, the adoption of 2-tier board (separate board leadership structure) by Deposit Taking Saccos is giving credence to agency theory (Dalton *et al*., 1998), which emphasis the importance of the separation of the role of CEO and board chair (Ebrahim et al., 2012). Organizations that have the 2-tier board structure have minimal agency problems emanating from conflict of interest hence lesser chance of potentially stifling performance (Kyereboah-Coleman, 2007).

Finally, the study objective sought to examine the extent to which Board Diversity Influence performance of deposit taking SACCOs in Kenya. The overall correlation coefficient for Board diversity and performance of deposit taking SACCOs in Kenya was found to be 0.229 with a p-value of $0.019 < \alpha=0.05$ implying there was a significant relationship between Board diversity and performance of deposit taking SACCOs in Kenya. The study finding is in line with the positive and significant relationship observed by Kamaara *et al.* (2013), Kagzi and Guha (2018) and Muchiri and Kimunguyi (2018). Ruto, Naibei and Cheruiyot (2017) found that board diversity increases the organizational access to external resources due to individual board member contribution, women and minority board members positively influence the performance of SACCOs. However, it contradicts the findings by Kamau *et al.* (2018) and Ongore and K'Obonyo (2011) who found board diversity has no association with firm performance. Kapil and Mishra (2019) found little evidence on relationship between board aspects and performance. Nevertheless, the results highlighted the importance of the role played by the board leadership in the performance of Deposit Taking SACCOs which have been the focus of prior studies. The finding gives credence to the theoretical underpinnings of Resource Dependency Theory that underscores the role of board as an important resource to an organisation (Hillman *et al*., 2009; Pfeffer and Salancik, 1978), designed to address the conflicts of interest between agent and principal and to bring their interests into congruence (Kiambati et al., 2013).

5. CONCLUSION

The study objective sought to establish the extent to which Board Diversity influences performance of Deposit Taking SACCOs in Kenya. The findings suggest there was a significant positive influence of Board diversity on performance of deposit taking SACCOs in Kenya. Board size, women on board, directors' compensation and board leadrehsip were found to influence performance. Though, the practical dertemination of the appropriate board size was beyond the scope of this study. However, there is a convergence of opinion that the board size should depend on organisational operations and existing regulatory frameworks. The study arrives at a conclusion that gender representation during constitution of boards is important to ensure diversity, legitimacy and build trust from the stakeholders. The study concludes that separation of roles and capping the directors' incentive and their performance can influence the organisational performance. Overally, the study findings give credence to Resource Dependency Theory and agency theory which empathizes on board contribution, oversight role and separation of roles to safeguard stakeholders' interest.

6. RECCOMMENDATION

The study recommended that Saccos should consider constituting an adequate board size considering the existing legal framework and their organisational operations. In addition, women representation should be a matter of valuable contribution to the boards, devoid of stereotypes or tokenism. Saccos should develop a board compensation plan and link it on individual and board performance. The SASRA as a matter of policy should strengthen and enforce adherence to the prescribed regulatory frameworks.

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AREAS FOR FURTHER RESEARCH

Further studies can explore other aspects of board for instance board processes, board expertise, proportion of executive and independent directors, board effectiveness, managerial discretion, board-management relationship and amongst others, in their influence on performance of deposit taking Saccos in Kenya, but also other different contexts to corroborate these findings.

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