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Effect of Corporate Governance Practices on Performance of Coffee Co-Operative Societies in Kisii Central, Kisii County, Kenya

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ABSTRACT
Cooperatives play an increasingly important role worldwide in facilitating job creation, economic growth and social development. The sector contributes close to 23% to the Gross Domestic Product in Kenya. This notwithstanding, reports at the Ministry of Co-operative Development & Marketing indicate that about 1000 memoranda on management issues are received annually from coffee societies. Further, about 55% of the coffee co-operative societies carry out elections before the expiry of the stipulated period indicating that members are concerned about the management of the societies. It's not clear why the trend continues despite existence of guidelines on corporate governance since 2003 that were meant to provide minimum cooperative governance. The general objective of this study, therefore, was to assess the effect of corporate governance practices on performance in coffee cooperative societies. The study adopted descriptive research design and surveyed 10 coffee societies in Kisii Central, Kenya. A total of 80 respondents consisting of 40 executive committee members, 30 supervisory committee members and 10 managers were purposively selected for the study. Secondary data relating to the number of complaints, production, sales, rate of payment and time taken to pay after sales was collected from the reports in the Ministry of cooperative office Kisii and from the society's records; while primary data was collected using self administered structured questionnaires. Descriptive statistics were used to analyse data. Simple regression was used to establish the relationship between the guidelines and the extent to which they had been practiced and their effect on the coffee society performance. Pearson's coefficient of correlation was used to establish the direction and strength of their relationship. The research found out that corporate governance guidelines contributed only 21.3% to the coffee societies' performance which was nonetheless considered significant.

Key words:
Corporate Governance Practices; Performance; Coffee Societies

1.0 INTRODUCTION

Corporate governance is a concept that is currently receiving a great deal of attention worldwide in both the private and public sector. Corporate governance can be defined as the manner in which the power of a corporate entity is exercise in the stewardship of the entity's total portfolio of assets and resources with the objective of maintaining and increasing shareholders value with the satisfaction of other stakeholders in the context of its corporate mission. In broad terms, corporate governance refers to the processes by which corporate entities are directed, controlled and held accountable. It also encompasses the authority, accountability, leadership, direction and control exercised in corporations. Effective system of corporate governance helps to facilitate decision-making, accountability and responsibility among the stakeholders. Good corporate governance ensures that the varying interests of stakeholders are balanced, decisions are made in a rational, informed and transparent fashion; contribute to the overall efficiency and effectiveness of the organization (Crawford, 2007)

In the liberalized global market, a country's capacity to create and produce wealth is closely related to the process by which corporate resources are allocated, utilized or invested. Strategic decisions about the allocation and utilization of corporate resources are the foundation of investments in productive capacities that can make innovation and economic development possible. Corporate decisions on whether to invest, when to invest, how soon to invest, what to produce, and whether to employ ultimately affect the incomes, employment and indeed livelihoods of the entire society. These decisions are made by or await the judgment of the Boards of corporations. The national capacity to compete in the borderless and liberalized global market increasingly depends on the competitiveness of individual corporate entities and their ability to produce goods and services that meet the test of global market (Kaleshu, J. 2008).

International competitiveness also depends on the ability of the Boards to apply focused intelligence to generate ideas, acquire and apply the knowledge and know-how to push and integrate their corporation into the competitive global market. Efficient corporations can only be established and developed by responsible, creative and innovative Boards. Indeed, without efficient business enterprises, a country will not create and produce wealth or generate employment opportunities. Without credible, stable and sustainable corporations, investors will not invest their resources into productive capacity. Without investment, business will stagnate and collapse. If there are no corporations that prosper, there will be no economic growth, no employment, no taxes paid and invariably there will be no meaningful development in a country. Therefore, improvement of corporate governance practices is widely recognized as one of the essential elements in strengthening the foundation for the long-term economic performance of corporations (Mudibo K, 2005).

The International Cooperative Alliance (ICA, 2004) defines cooperatives as an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs through jointly owned and democratically controlled enterprises. Cooperatives societies in Kenya operate under the Co-operative Society's Act Cap 490 and therefore governed under this act. The members in a general meeting elect a management committee (Board of Directors) who manage the society on their behalf. The management appoints a manager as a chief Executive officer to assist in the management.

The major stakeholders in the coffee sector in Kenya are the individual coffee farmers; coffee cooperative societies that receive, process, store, transport and pay the members; Ministry of Cooperative Development & Marketing which provides Legal Policy Framework; Ministry of Agriculture that provide extension services; Coffee Board of Kenya which is the regulator; Coffee Research Foundation which does research on coffee, Millers and Marketers. The major challenges facing the coffee sector are: coffee husbandry practices, quality of processing materials and storage facilities, delayed payments, low rate of payment and leadership issues (Ngumo M., 2006).

Cooperatives are considered as important pillars in realizing the country's vision 2030. Although a few coffee co-operatives have been successful in the challenging liberalized economy, most of them have been unable to adopt the guidelines on corporate governance practices. The Ministry of Co-operative

Development & Marketing annual report (2010) indicates that about 1000 memoranda on low coffee payment rates are received annually from coffee societies. As a result, about 55% of coffee cooperative societies carry out elections of the office bearers before the stipulated expiry period in anticipation of injecting in better leadership in the Societies. Some of the societies take up to over one year before convening any general meeting to discuss various issues that affect the members, hence, these members feel isolated in decision making process. Consequently, the members may not be supportive of the various decisions made by the board of directors. There are numerous outcries from the members of coffee co-operatives societies on how the societies are governed. The District co-operative office in Kisii also conducts an average of about 85 inquiries on allegations of misuse of power and responsibility annually. The finding of these inquiries is mostly on misuse, misappropriation of society funds and imprudent decision making by the management.

Therefore, the general objective of this study was to assess the effect of corporate governance on performance of coffee co-operatives societies in kisii Central Kenya, with specific objectives being: (1) to determine the extent to which coffee co-operative societies have practiced corporate governance guidelines in Kisii Central; (2) to establish the level of performance in coffee co-operative societies, and (3) to analyze the relationship between the extent to which these societies have practiced the corporate governance guidelines in coffee co-operative and the level of performance.

2.0 LITERATURE REVIEW

2.1 The Concept of Corporate Governance in Management

The concept "Governance" got its definition from various theories developed by management scholars such as Clarke *et al.,*(2004) which saw agency theory as the relationship between the shareholders and agents such as the company executives and managers. In this theory, shareholders who are the owners or principals of the company, hire the agents to perform work and are supposed to be accountable and responsible to the members. Principals delegate the running of business to the directors or managers, who are the shareholders agent.

Armstrong *et. al.,*(2005) looked at corporate governance in terms of Stewardship Theory which got its roots from psychology and sociology and defined corporate governance as a way to protect and maximize shareholders' wealth through firm performance. It therefore, means that there should be efficient and effective utilization of resources by the stewards. In this perspective stewards are shareholders. Wheeler *et. al.,* (2002) pointed out that Stakeholder's theory was embedded in the management discipline in 1970 and further argued that stakeholder's theory was derived from a combination of the sociological and organizational of disciplines which advocated for complete and democratic participation of the stakeholders in order to achieve some acceptable performance.

Public Sector Corporate Governance and Thrust (PSCGT, 2002) in their annual publication reported that for corporations to be efficient and productive, they must apply good corporate governance practices that are framed on four pillars. First, there should be an effective body responsible for governance separate and independent of management to promote accountability, efficiency and effectiveness, probity and integrity, responsibility, transparency, and open leadership. Secondly, there must be an all inclusive approach to governance that recognizes and protects the rights of all members and all stakeholders. Thirdly, the corporation must be governed and managed in accordance with the mandate granted by the founders in order to achieve good performance.

Gekonge (2002) defines corporate governance as the process and the structure used to direct and manage business affairs of the company towards enhancing property and corporate accounting with the ultimate objective of safeguarding shareholders long term value while taking into account all the interests. In all fields of human Endeavour, good governance is founded upon the attitude, ethics and values of the society concerned.

Further, Mudibo (2005) maintains that good corporate governance is premised on the society within which corporate entities operate, upholds the highest moral values and business ethics requires accountability, legitimate representation, democracy and fairness; and demands efficient and effective use of resources, that those entrusted with the governance of these corporate entities will act in a socially responsible manner and exercise their focused intelligence with discipline loyalty and integrity. That, those corporate entities which do not operate efficiently and effectively for the benefit of society will be sanctioned through market forces or by the Government.

2.2 Principles of Good Corporate Governance

The Cadbury report on effective corporate governance practices (1992) identified the three fundamental principles of corporate governance as openness, integrity and accountability. These principles are relevant to both private and public entities. The Cadbury's report defined these three principles in the context of the private sector and more specifically, of public companies. In the context of the public sector, these definitions need to be adapted to reflect the key characteristics of public sector entities, which distinguish them from the private sector. In particular, public sector entities have to satisfy a more complex range of political, economic and social objectives, which subject them to a different set of external constraints and influences; and are subject to forms of accountability to various stakeholders who are different from those that a company in the private sector owes to its stakeholders.

The report of the Nolan Committee, (1995, May) identified and defined seven general principles of conduct that should underpin public life. The committee recommended that all public sectors entities should draw up codes of conduct incorporating these principles. The principles are selfishness, integrity, objectivity, accountability, openness, honestly and leadership. Hunger, *et. al.,* (1996) posed that effective corporate governance ensures that long term strategic objectives and plans are re-established and proper management and structure are in place to achieve those objectives and good performance, while at the same time making sure that the structure functions to maintain the company's integrity, reputation and accountability to its relevant constituencies. The right system of checks and balances should be the basis of merit for any governance system

2.2.1 Government's Guideline on Accountability

Monks *et. al.,* (1991) argued that, the concept of account –giving has ancient roots in record keeping activities related to governance and money-keeping systems that first developed in Ancient Israel and other countries. Ethical accountability is the practice of improving overall personal and organizational performance by developing and promoting responsible tools and professional expertise, and by advocating an effective enabling environment for people and organizations to embrace a culture of sustainable development.

International Cooperative Alliance (ICA, 2004) in their annual publication pointed out that accountability has become an important topic in the discussion about the legitimacy of international institutions. Because there is no global democratically elected body to which organizations must account, global organizations form all sectors bodies are often criticized as having large accountability gaps. Cooperative societies are required to be accountable to the members of their societies who have elected them. The Board of cooperatives societies should ensure that financial reports follow the International Accounting Standards and there is effective communication of all operational reports to the various supervisory agent and stakeholders. That accountability of power based on the fundamental belief that power should be exercised to promote human well-being.

2.2.2 Transparent and Open Leadership in Organizations

Clarke (2007) posited that the economic crisis has triggered a crisis of confidence in both public and private sector institutions, leading to increased demands for transparency and accountability from business and governments. To restore the public's trust, greater global coordination and collaboration will be required to bolster the financial markets and protect investors around the world. A new anti-corruption era is forcing companies to change their behaviors to adapt to the financial and reputation risks that come with global expansion, especially in areas where geopolitical risk and corruption are pervasive.

An aggressive international push to fight corruption has moved beyond well-intentioned rhetoric and toward hard results, with foreign Corrupt Practices Act (FCPA) investigations and enforcement actions spiking over the last several years- a trend which is likely to intensify in the days ahead. Business leaders and board members should take notice. How well companies prepare for geopolitical risk and anti-corruption compliance could make or break the viability of doing business in new markets. Transparency is seen as the powerful imperative way for open communication in a boundless world transformed by information technology and its impact on corporation politics and leadership with values of integrity that create a transparent organization, and live in an ever more transparent world culture (Armstrong, 2005).

Business performance practice requires that there must be transparency and open leadership within any organization to be able to realize the set objectives. Therefore, it calls for cooperatives to exercise leadership, integrity and sound judgment in directing the cooperatives so as to adhere continuing prosperity. In so doing, directors shall act in the best interest of the cooperative society while respecting the principles of transparency and open leadership.

2.2.3 Efficiency and Effectiveness in Organizations

Cadbury (1996) defined efficiency as developed process / systems to accomplish a task in the minimum amount of time. Effectiveness is determining the right task, and accomplishing it in ways that are best suited to the individuals working on it. Concentrating on efficiency while ignoring effectiveness will end up yielding results that may not always move the company forward to its goals. Efficiency is measured, traditionally, by ratios like maintenance cost per annum as a percentage to total cost of production of the last version bought, and went on further to say that, good governance is founded upon the attitudes, ethics practices and value of the any organization regarding efficient and effective use of resources for the production goods and services. Effectiveness is traditionally measured by the degree of satisfaction of the customers of the business process. In other words, the total quality impact on customers of a company that deploys an application measures its effectiveness.

Shareholders in cooperative societies must play their role in ensuring that their organizations are well governed. In order to do this, they must keep themselves informed about their cooperative societies so as to be in a position to make independent and informed decisions on all issues on which they are called upon to make. Shareholders should ensure that they clearly understand the objects for which their cooperatives are formed so that they can effectively hold the directors they elect to account. Shareholders have a duty to ensure that only competent and reliable persons, who can add value, are appointed to the Board of Directors. In addition, they must ensure that the Board is constantly held accountable and responsible for the efficient and effective governance of the cooperative society so as to achieve the cooperative society objectives, prosperity and sustainability.

2.2.4 Responsibility of the Board of Directors and the Management

Feltus *et. al.,* (2009) defined responsibility as the enforced or felt obligation of managers acting in their official capacities to serve or protect the interest of groups other than themselves. He further explained that responsibility means a multiplicity of things to a vast multitude of people. To some it means being accountable for ones action towards themselves and others. A responsible person is one who puts himself/herself at the forefront of any organization. In co-operative societies it is the responsibility of the board to ensure that the co-operative societies comply with the standards and policies that enhance good governance.

2.2.5 Integrity of the Board of Directors and the Management

Organization for Economic and Development (OECD, 1999) define integrity as the quality of being honest and having strong moral principles. It is one facet of personality derived from a person's self-regulation, which determines the person's loyalty, dedication, effort, and initiative with regard to the organization, and facilitates implementation of the organizations goals. Caligiuri (2001) further states that evidence has shown that integrity is not cultivated purely by training or education, but is strongly connected with effectiveness in following necessary procedures to promote corporate governance, and it thus determines the public's level of trust in and respect for the management.

2 .3 The Need for Corporate Governance in Organizations

Corporation laws are considered to enhance the rights of corporate boards to govern without unanimous consent of shareholders in exchange for statutory benefits like appraisal rights, to make corporate governance more efficient (Clark, 2004). The rights of individual owners and shareholders have become increasingly derivative and dissipated. The concerns of shareholders over administration pay and stock losses periodically has led to more frequent calls for corporate governance reforms. He further looked at both the agency theory and the stewardship and pointed out the following: according to the agency theory, the likelihood that the corporate governance problems will occur increase when stock is widely held (that is when no one shareholder owns more than a small percentage of the total common stock), when the board of director is composed of people who know little of the company or who are personal friend of top management, and when a high percentage of board member are inside (management) directors.

Armstrong (2006) argued that, in the first half of the 1990s, the issue of corporate governance in the U.S.A received considerable press attention due to the wave of CEO dismissals by their boards. The California Public Employees' Retirement System led a wave of institutional shareholder activism as a way of ensuring that corporate value would not be destroyed by the now traditional cozy relationships between the CEO and the board of directors. In 1997, the East Asian Financial Crisis saw the economies of Thailand, Indonesia, South Korea, Malaysia and the Philippines severely affected by the exit of foreign capital after property assets collapsed.

The purpose of corporate governance in all countries serves two indispensable objectives; to enhance or stimulate the performance and to ensure the conformance of corporations. Corporate governance is seen as a principle generator of economic wealth and growth in society by creating and maintaining a business environment that motivates managers and entrepreneurs to maximize firm's operation efficiency, returns on investment and long term productivity growth.

Private Sector Corporate Governance and Trust (PSCGT, 2002) in their report said that for corporate entities to be efficient and productive, they must apply good corporate governance practices that are framed on four pillars. There must be an effective body responsible for governance which is separate and independent of management to promote: Accountability, Efficiency and effectiveness, Probity and integrity, Responsibility and transparency and open leadership. There must be an all-inclusive approach to governance that recognizes and protects the rights of members and stakeholders. The corporation must be governed and managed in accordance with the mandate granted to it by the founders and the society, and take seriously its wider responsibilities to enhance sustainable prosperity.

The report also pointed out that progressive economic growth and social development over a prolonged period of time depends on decisions about allocation, utilization and investment of resources. Strategic decisions about the allocation and utilization of corporate resources are the foundations of investments in productive capacities that can make innovation and economic development possible. Corporate decisions on whether to invest, when to invest, what to produce and whether to employ ultimately affect incomes.

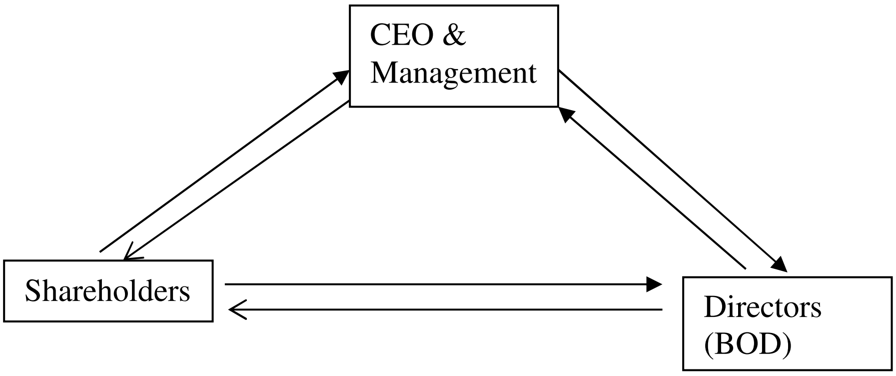
The national capacity to compete in the borderless and liberalized global market increasingly depends on the competitiveness of individual corporations and their ability to produce highest quality of products and services that meet the test of international competition. A corporation's competitiveness depends on the ability of the board of directors to apply and generate innovative ideas, acquire and apply knowledge and know how to push and integrate their corporation into the competitive global market.

Kenya's mission to attain new middle industrialized country status by 2030 requires public and private sector agencies to embrace high corporate governance standards. The Kenya Anti-Corruption Commission in their semiannual news letter pointed out that good corporate governance was a key driver for industrialization and attaining the Millennium Development Goals. It further pointed out that entrants are evaluated on transparency, disclosure, compliance with laws and regulations, leadership, integrity, creativity, innovation, corporate social responsibility and enhancement of shareholder value.

Corporate Governance has now evolved from a mere academic exercise to the application of the Principles of Good Corporate Governance. Good corporate governance aims at the increased profitability and efficiency of business enterprises and their enhanced ability to create wealth for shareholders, increased employment opportunities with better terms for workers and increased benefits to stakeholders. The transparency, accountability and probity of business enterprises make them acceptable as caring, responsible, honest and legitimate wealth creating organs of society.

2.4 Corporate Governance Structure

Montgomery *et.al.,* (2003) acknowledged that the corporate balance of power is delicate. The three principal actors in this power game are the shareholders, management and the board of directors. The interrelationship between them is key to effective governance. He depicted this relationship in a triangular form as shown in figure 1.



Source: Adapted from Montgomery and Kaufman. The missing link (2003)

Figure 1: *The Corporate Governance Triangle*

2.4.1 Role of the Shareholders in Organizations

Primarily, it is the money raised from shareholders, known as capital, which is used by an organization to finance its operations. They do not have direct right in the property of the organization but have an ownership interest in the organization as a whole. They do not engage in daily management of the organization. Instead, they elect persons known as directors, who collectively as a board represent them and oversee the management on their behalf. The shareholders control the long term direction of the organization through the general meetings which in most organizations are held at least once a year. At the general meetings, they deliberate and vote on important issues such as election of directors and auditors. After appointing directors and auditors, they should satisfy themselves that an appropriate governance structure is in place. They are expected to remove directors if unhappy with their action. They should evaluate the performance of directors regularly. For them exercise this, they need to be properly informed about the company's activities in order to carry out their evolution. One of the ways organizations report to their shareholders is through the annual audit reports. The reports are prepared with due regard to requisite disclosure requirements as per governing regulations. Many countries including Kenya have adopted the International Accounting Standards (IAS) which has progressively been improving on disclosure requirements like in the banking and insurance, which serve to protect shareholder's interest. The power of regulatory requirements like in the banking and insurance also serve to protect shareholder's interest.

2.4.2 Role of the Board of Directors in Organizations

The Board of Directors is the link between the people who provide capital (shareholders) and the people who use that capital (Management) to create value. Their primary role is to monitor and influence the performance of management on behalf of the shareholders in an informed way. Efficient corporations can only be established and developed by responsible, creative and innovative boards. Indeed, without efficient corporations, a country will not create and produce wealth fast enough or generate employment opportunities. In a legal sense, the board is required to direct the affairs of the corporation but not to manage them. It is charged by law to act with due care (sometimes called due diligence). Directors must act with that degree of diligence, care and skills which ordinary prudent people would exercise under similar circumstances in similar positions. If a director or the board as a whole fails to act with due care and as a result, the corporation is in some harm, the careless director or directors can be held personally liable for harm done.

Hunger (1996) outlined three strategic management roles for boards, first, to monitor by acting through its committee, staying abreast of developments both inside and outside the corporation. The board can thus bring to management's attention developments that management might have overlooked. At minimum, a board should carry out this task. Secondly, a board can examine management's proposals, decisions and actions; agree or disagree with them; give advice and offer suggestions; and outline alternatives. More active boards do so in addition to monitoring management's activities. Thirdly, a board can delineate a corporation's mission and specify strategic options to its management. Only the most active boards take on this task in addition to the previous two.

2.4.3 The Role of Management in Organizations

Montgomery *et. al.,* (2003) averred that the management comprises the CEO and his senior management team. Their primary responsibility is performance. Top management and especially the CEO, is responsible to the board of directors for overall management of the corporation. Specific top management tasks vary from firm to firm and reflect an analysis of the mission, objectives, strategies and key activities of the corporation. Generally, effective top managers are people who see the business as a whole, who can balance the present needs of the business against future needs and can make sound timely decisions.

2.5 Reforming Corporate Governance

Stock exchanges in many countries of the world are coming up with new rules aimed at restoring the quality of disclosure by preventing conflicts that were evident in the most spectacular recent bankruptcies (Blum, 1990). The New York Stock Exchange requires firms to get shareholders approval for all stock option plans. They must also have a majority of independent directors in their boards and only these independent directors can select chief executives and determine pay. US companies are now prohibited from providing subsidized loans to executives, and require bosses to reimburse incentive-based compensations if profits are found to have been misstated.

In Kenya, the capital Markets Authority issued guidelines for observance by public listed companies in order to enhance corporate governance practices by such companies. These guidelines came into effect on 14th January, 2002. Capital Markets Authority (CMA, 2008) noted that there are moves to ensure auditors audit independently. Auditors are not the tools of management. They are eyes and ears of shareholders (who own the company) and no bonds or other deals should be put above the ownership of shareholders (without their permission). Accountability Commission could assign auditors and pay them from fees assessed on companies. The commission would be empowered to expand reporting requirements beyond stockholder needs to encompass data needed by other stakeholders-such as pollution emissions, wages and benefits paid, and corporate welfare received. There is insistence that accountants rotate audit partner overseeing a firm's accounts and that auditors can no longer sell certain non-audit services to audit clients. Auditors have too often chosen to ignore skeletons in corporate cupboards. Accounting partners will no longer be able to jump directly into upper management at client companies.

All public officers beginning with the president down to the councilor must submit their declarations of wealth now that the Public Officers Ethics Bills, 2003 has become law. The bill requires public officials to make annual declarations on their income, assets and liabilities. The bill also sets out a code of conduct that prohibits a wide range of behavior by public officers. Prohibited behavior includes solicitation of favors using public office, keeping gifts, use of information acquired through public office for personal benefit, sexual harassment, partisan political conduct by civil servants and different forms of conflicts of interest.

2.6 Performance in Organization

Sumatra (2004) defined performance as the act of carrying into execution or action; achievement; accomplishment; representation by action; an undertaking of a duty a deed; an act; a feat; especially an action of an elaborate or public character. He further explained that Performance management is the process of creating a work environment or setting in which people are enabled to perform to the best of their abilities. Performance management is a whole work system that begins when a job is defined as needed. It ends when an employee leaves the organization.

Managing performance requires us to reconcile caring for and developing people with ensuring that departmental and organizational aims are achieved. Managing performance requires striking a balance between compassion and accountability. Good modern managers strive to balance these two areas according to the situations in which performance is required in corporations. This involves judging each different situation on merit and deciding a course of action and management style that is right for the situation. A big part of what people need from their leaders is a clear understanding of what is expected, in other words, explanation, clarification, agreement on performance and expectations.

Monks *et,al.*, (1991) affirmed that a huge proportion of performance problems can be traced back simply to a failure to explain the expectations and/or a failure to understand and provide the help that a person needs. These are the responsibilities of the leaders. Don't assume everything is understood and perfectly within people's capabilities. Instead, take time to explain, check and ask until everyone concerned is happy and sure of what needs to be done, why and how. Usually the aspects of performance that place the biggest demands on managers, and create the biggest challenges and problems, are those areas concerned with a 'failure' to perform to a certain standard or target or other requirement. Performance above standard rarely creates a management headache. It makes sense therefore to look first at managing performance at the level of basic standards and responsibilities. Where there is confusion about the standard or expectation that is not being met, one must sit down with the person and find out why they do not meet the standards. You must judge the situation on merit and with sensitivity and if necessary seek input from an appropriate person in the Human Resource Department for advice to resolve the difficulties of Managing performance that is below 'contracted' standard by Starting with identifying the actual root cause, so as to take appropriate action, firmly, professionally, creatively and compassionately.

2.7. Empirical Studies of Related Literature

Asaolu, (2004) quoted the Mass Mobilization for Social and Economic Recovery (MAMSER) in their studies of 1988 as identifying the problems facing cooperative movement in Nigeria to be corporate governance issues, political and socio-economic factors. The study highlighted out the following problems as; bad leadership and succession problems, lack of modern business techniques, bad record keeping and shortage of supervisory staff, inadequate capital base, widespread illiteracy and corruption and embezzlement of cooperative funds by leaders. Nevertheless, the study did not specifically address the other aspect of corporate governance including transparency, accountability, efficiency and effectiveness. The study therefore intends to find out how these corporate governance practices affect the cooperative sector.

Kaleshu (2008) in his study on financial performance of cooperative societies in Tanzania identified lack of corporate governance guidelines as a major setback to the governance practice in cooperatives societies saying that group action is more difficult to coordinate than individual action. From the result of the findings, he recommended that further studies be done on the effects of the corporate governance practices on the performance of cooperative societies.

Akinwumi (2006) affirmed that governance and leadership problems are critical elements that affect efficiency of cooperative movement not only in Nigeria but also in the rest of African countries. He therefore suggested the need for total corporate governance in reengineering of cooperative movement to enable it to face the challenges of the changing world in order to perform the desired economic function. He said that good corporate governance practices require a constant scanning of the governance environment in order to determine appropriate strategic corporate governance guidelines to be adopted towards achieving desirable objectives.

Crawford (2007) in his study on compliance and conviction of corporate governance reinforced the view that corporate governance seeks to create corporations that are governed transparently and with integrity, and which are accountable. However, he found out that most of the corporations are controlled by Board of Directors who is not responsible to the shareholders. This is based on the premise that business enterprises practicing good corporate governance have a better chance of success and good performance than those which do not. Therefore, this study endeavored to establish whether the involvement of the shareholders have an effect on the performance of these corporations.

Akinwumi (2006) opined cooperative sector as providing the best alternative among other economic groupings and schemes, suggesting that they needed to formalize in line with cooperative principles so that long after project interventions they still remain sustained. Invariably, cooperative society remains the better alternative to economic reconstruction of the government. He pointed out that as much as it is desirable for cooperative societies to help in the development of a nation, there are problems and constraints that have militated against its effective performance of its roles in nation building and that this has led to poor management performance, declining and death of some cooperatives. The other critical element according to Akinwumi was leadership. He said that if cooperative leaders are transparent, dedicated and follow good governance practices, then there will be good performance and the cooperative sector will definitely succeed. He concluded by saying that a true leader does not cut corners, does not inflate contracts so as to receive kickbacks, does not have favorites among members and does not mismanage the resources. However, his study did not address the aspects of transparency and accountability which are considered critical to corporate governance practices. Thus, the need for this study to assess the effect of these practices on performance of coffee cooperative societies.

Ngumo (2006) concluded that there has been much progress in the development of cooperatives in the country in the recent years compared to 15 years ago, and the future of cooperative societies is very bright despite the challenges. Some of the challenges, he said, were mismanagement, slow adoption of modern technology and failure to adhere to rules and regulations in the operations of the cooperative societies. In his recommendation, he said that there need to be immediate review of the cooperative law in line with the guidelines on corporate governance in cooperatives in Kenya that would address the corporate governance practices in the sector.

He further recommended that, there is need to do further research on corporate governance guidelines and their effects on the board of directors, members and employees of the sector and how they fit the prevailing management environment.

2.8 Conceptual Framework

Corporate governance practices in co-operatives

- **Accountability**.
Documentation and transaction done within specified time.
- **Efficiency & effectiveness.**
Service to members done within specified period.
- **Responsibility**.
Members issues attended and responded to immediately
- **Open & Democratic member control**
Open leadership and Democracy practiced
- **Integrity**
High moral value practiced

Performance of coffee co-operative societies

- Accurate weighing & recording members' coffee delivered.
- Timely processing of members' produce done.
- Output of bags of processed coffee sold
- Rate of payment per kilogram of coffee
- Timely payment of members' dues.

- Political environment
- Technological environment
- Economic environment

Intervening factors

Source: Researcher (2014)

Figure 2: *Effects of corporate governance guidelines on performance in coffee co-operatives societies.*

3.0 METHODOLOGY

This research adopted a cross sectional survey research design since Surveys can be used for explaining or exploring the existing status of two or more variables at a given point in time Saunders and Thornhil (2007). The study was conducted in Kisii Central District, Kisii County Kenya. Ten coffee co-operative societies, each having 9 elected committee members, 3 elected supervisory committee members and one appointed manager, constituted the target population of 130. Stratified sampling was used to group the respondents into executive committee members, supervisory committee members and managers. Purposive sampling was then employed to select 80 respondents comprising of 40 executive committee members (Chairman, Vice-Chairman, secretary and the Treasurer), all the 3 supervisory committee members, and the managers since these were the people who directly and actively deal with the day to day running of the societies under study.

Self administered structured questionnaires were used to collect primary quantitative data from the respondents. A five point Likert scale was used to measure the level or extent of agreement with the statements in the questionnaire. Additionally secondary data sources from the Ministry of Co-operative Development and Society offices were used to supplement primary data. The data was analyzed using both descriptive and inferential statistics. Descriptive statistics such as the mean, average and percentages were used to analyze both the extent of practice of the government's corporate governance guidelines in cooperatives and the level of performance. While simple regression analysis was used to establish the relationship between the extent of practice of corporate governance guidelines in cooperatives and the performance in the societies. Pearson's coefficient of correlation was used to determine the direction and the strength of the relationship between the practice of the corporate governance guidelines and the level of performance. The regression model was based on the following equation;

Performance of Coffee Society =f (Government guidelines on corporate governance)

Thus, $Cp = \alpha + \beta X + \varepsilon$ ………………………… {Equation 1}

Where, Cp – Coffee Society performance,
α – Constant (autonomous performance)
X – Government guidelines on corporate governance
β. – Coefficients of independent variable and
ε – Error term

4.0 RESULTS AND DISCUSSION

4.1 Extent of Corporate Governance Practice

The first objective was to establish the extent to which Coffee cooperative societies in Kisii Central District, Kisii County have practiced the government's guidelines on corporate governance. To achieve this, the respondents were requested to rate on a five- point Likert scale, the extent to which government corporate governance have been practiced in their societies over the past 6 years. The results were as presented in table 4.1 below.

Table 4.1: Extent of corporate governance practice

	WEIGHTS							
	Not at all	**Little extent**	**Mod extent**	**Large extent**	**V/large extent**			
Governance Guidelines	**1**	**2**	**3**	**4**	**5**	**$\sum f_i$**	**$\sum f_i w_i$**	**$\sum f w_i / \sum f_i$**
1. Documentation and transaction done within specified time	8	11	17	25	10	**71**	**231**	**3. 25**
2. Service to members done within specified time	15	23	17	11	5	**71**	**181**	**2.55**
3. Members issues attended & responded to immediately	27	25	12	5	2	**71**	**143**	**2.01**
4. Open leadership and Democracy practiced	12	21	28	7	3	**71**	**181**	**2.55**
5. High moral value practiced	27	23	12	7	2	**71**	**147**	**2.70**

Source: Survey Data, (2014)

While responding to the extent to which the societies have adhered to the documentation and transaction done within specified time, the respondents recorded a total weighted score of 131, resulting in a weighted mean of 3.25 on the scale. The weighted mean score suggested that the guideline is to a moderate extent being practiced. This could be because quite a good number of societies have acquired the relevant documentation materials which are required in the transaction process. Further, this may have been as a result of members demanding a prompt service delivery from the society.

Thus this is expected to improve the general performance of these societies. The findings of this study concurred with the one conducted by Kaleshu (2008) on Financial management and performance. This, largely depend on timely documentation of transactions for quick decision making which revealed that most of the societies whose transaction records are documented in the specified time tend to perform better than those who do not. He concluded that the disclosure of a company's income and expenditure is a panacea to improved confidence in the company by the shareholders.

Concerning the service to members done within specified time, a total weighted score of 181 was recorded by the respondents, resulting in a weighted mean score of 2.55 on the scale. This suggested that majority of the respondents admitted that this guidelines is to a little extent being practiced by the coffee societies in the district. It is therefore expected that with this little extent of practice of this guidelines the members will not patronize the society. The finding of this study concurs with a study by Kashuliza (2002) who found out that timely service to customers' plays a big role in their retention.

As regards to the member's issues attended to and responded to immediately, the respondent indicated a total weighted score of 143, with a weighted mean score of 2.01 indicating a little extent of practice of this guideline. This is expected to affect the efficiency and service delivery to the members. This concurs with a study by Mudibo (2005) who also found out that generally, societies that do not satisfy their members needs urgently tend to lose them as they join other alternative societies.

When asked about the extent of practice of open leadership and democracy, the respondents recorded a total weighted score of 181 thus obtaining a weighted mean score of 2.55; suggesting that majority of the respondents admitted that the guideline is moderately practiced. This means that at least every member is given equal opportunity to elect and be elected, and participate in decision making. This is likely to bring confidence among the members resulting in the retention of the membership.

Regarding the practice of high value moral it was found that the respondents recorded total weighted score of 147.The weighted mean score was 2.07, an indication that the guideline is to a little extent being practiced. Thus this may result in the societies' members losing confidence with the management and seek services elsewhere. This is in agreement with Cadbury (1996) that the organization, within which corporate entities operate, upholds the highest moral values and business ethics; requires accountability and demand efficient and effective use of resources, such that those entities which do not, will be sanctioned through market forces and eventually be pushed out the market.

4.2 Coffee Societies' Performance

The second objective was to establish the level of performance of the coffee societies in Kisii Central District. To achieve this, the respondents were requested to rate on a five-point Likert scale, the extent to which they agreed with the performance of their coffee societies over the past 6 years. The results were as presented in table 4.2.

Table 4.2: Society's Performance

	WEIGHTS							
	Not at all	Little extent	Mod extent	Large extent	V/large extent			
Governance Guidelines	**1**	**2**	**3**	**4**	**5**	**$\sum f_i$**	**$\sum fw_i$**	**$\sum fw_i/\sum f_i$**
1. There has been accurate weighing and recording members 'coffee	27	29	10	4	1	**71**	**136**	**1.92**
2. The society has consistently and timely processed members' produce	8	22	28	8	5	**71**	**193**	**2.72**
3. The society has consistently increased the number of coffee bags marketed	32	21	10	6	2	**71**	**138**	**1.93**
4. Coffee payment rate has been improving over time	29	26	12	3	1	**71**	**134**	**1.89**
5. Prompt payment of dues done	18	23	25	4	1	**71**	**160**	**2.14**

Source: Survey Data, (2012)

Concerning the performance of coffee societies to accurate weighing and recording member's coffee, the respondents recorded a total weighted score of 136, resulting in a weighted mean score of 1.92 on the scale. This means that the performance of the coffee cooperative societies in terms of accurate weighing and recording of members' coffee is quite wanting. This could be because many societies do not have modern and accurate weighing scale machines and that some society employees may not be honest when doing the weighing and recording.

When asked about the consistent and timely processing of members' produce, increase in investments, the respondents recorded a total weighted score of 193, this resulted to a moderate extent of agreement to the level of performance with weighted mean score 2.72 on the scale. This could be as a result of most societies still operating with very old coffee processing facilities which may be slow and regularly break down.

Responding to the consistency in increase in the number of processed coffee bags marketed and sold, the respondents recorded a total weighted score of 138, resulting in a weighted mean score of 1.94 on the scale. Majority of the respondents were of the view that societies have not done enough so as to have members increase their delivery of coffee to the societies. Again with efficient and effective service delivery, members remain loyal to the societies. It is not clear why the societies cannot be consistently increasing the number of bags processed coffee, marketed and sold. Could it be that they there is a better alternative market available to them elsewhere? However, a study by Gachara (1990) found out that most societies where there is no increasing trend in growth generally shareholders tend to withdraw their membership and seek share holding elsewhere.

In response to member's coffee payment rate improving over time, the respondents recorded a total weighted score of 134; this resulted in a weighed mean score of 1.89 on the scale, which is an agreement to little extent. This proved why 46.48% of the respondents admitted that the membership of the societies has remained constant, suggesting that most of the societies have not done enough to increase their membership. These findings were supported by the study done by Dempsey *et al.,* (2002) who posited that cooperatives destroy value since few of them have changed the way they operate, hence resulting to a weak financial performance in the sector. Responding to the issue of prompt member's payment of their dues, the respondents recorded a total weighted score of 160, resulting in a weighted mean score of 2.14 on the scale. This means that the performance of coffee co-operative societies in terms of prompt member's payment dues is somehow wanting and was confirmed by the second largest majority of respondents who admitted that they to a little extent agree with the pace of payment dues to members.

4.3 Extent of Practice of Corporate Governance Guidelines and the Level of coffee Society Performance.

The third objective of this study was to analyze the relationship between the extent to which coffee societies have practiced the government corporate governance guidelines and their level of performance. To address this, simple linear regression analysis was used to deduce a model that could be used to explain society performance, while Pearson's correlation coefficient was used to determine the direction and strength of the relationship between government corporate governance guidelines (independent variable) and society performance (dependent variable).

4.3.1 Simple Linear Regression Analysis

Before the regression procedure was carried out, the basic assumptions of linear regression analysis were deemed to be true; that the dependent variables are random real variables and have a normal distribution, that the mean of the dependent variable in any particular period is zero, that the variance of the dependent variable is constant in each period, that the disturbance terms of different observations are independent and that the explanatory variables are non-stochastic. The three important outputs of simple linear regression analysis used were: model summary, ANOVA table and coefficient of correlation.

4.3.2 Model Summary

To assess the amount of variation of Society Performance that could be explained by government corporate Governance guidelines, the coefficient of determination was used and its results are presented in the table 4.3 below.

Table 4.3: Model Summary (N=71)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.503[a]	.213	.204	2.510

a. Predictor: (Constant): Government corporate governance guidelines.

Source: Survey Data, (2014)

The above table shows the model of coffee societies performance. The R value which is the coefficient of correlation being 0.503 implies a moderate positive linear relationship. The R^2value is the coefficient of determination (expressed as a percentage) and shows variability in dependent variable explained by the variability in independent variable(s). From the model it was found that only 21.3% of the variation in the society performance of the coffee societies can be explained by the practice of the government corporate governance guidelines. This is an indication that the government corporate guidelines to a large extent did not contribute to the level of Society performance in the coffee societies. The adjusted R^2 (0.204) is a standard arbitrary downward adjustment to penalize for the possibility that, with the independent variable some of the variance may be due to chance. The adjusted R^2 is therefore an indicator of generalizability as it is used to estimate the expected shrinkage in R^2 that could not generalize to the population because of the solution being over-fitted to the data set by including too many independent variables. Kaleshu, (2008) in his study identified lack of proper governance guidelines as major setback to good performance of cooperative societies. He went further and said that with proper government intervention, cooperative societies are likely to perform much better and with a lot of discipline.

4.3.3 Summary of ANOVA (F-Statistics)

In assessing whether the model could significantly predict the society performance of the coffee societies, the F-statistic from the ANOVA table was used and the results are shown in table 4.4.

Table 4.4: ANOVA[b] (Analysis of Variance) table (N=71) Model

Model		Sum of Square	df	Mean Squares	F	Sig.
1	Regression	221.909	1	230.014	29.439	.000[a]
	Residual	629.982	69	7.343		
	Total	851.891	70			

a. Predictors: (Constant), government corporate governance guideline
b. Dependent Variable: society Performance

Source: Survey Data, (2014)

The above table shows the summary of ANOVA table and F-statistics, which reveals that, the independent variable: government corporate guidelines can significantly predict the society performance of the coffee societies ($F_{1, 69}$= 29.439, P< 0.05). According to Geller (2009), ANOVA is used to test the significance of variation in the dependent variable that can be attributed to the regression of one or more independent variables. Using this statistical procedure produces a calculated F value which is compared to a critical F value for a particular level of statistical probability. Obtaining a significant F value indicates that the results of the regression are indeed true. Therefore, F value of 29.439 significant at 0.05 confidence level indicated that the independent variable contributed to the variance of Coffee Society's performance. The F value also indicates that the simple regression model is statistically significant. Alternatively, the critical value of *F* for *á* =0.05 and 1and 69 degree of freedom as from table is 3.98. Since 29.439 is greater than 3.439 it indicates that the independent variable contributed to the variance of coffee society performance.

4.3.4 Regression Coefficient

The unstandardized regression coefficients, the standardized beta coefficients and t-test values are presented in table 4.5

Table 4.5: Regression Coefficients (N=71)

Coefficients

	Unstandardized	Standardized

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	Coefficients		Coefficients		
Model	**B**	**Std/ Error**	**Beta**	**t**	**Sig.**
1. (Constant)	4.995	1.010		3.987	.000
Government guidelines	.397	.76	.523	4.998	.000

a. Dependent Variable: Society Performance

Source: survey data (2014)

From the table it is seen that the t-test value for the regression coefficients is significant at 95% confidence level ($p< 0.05$). The un-standardized regression coefficients were used to obtain the regression equation that shows the relationship between the government corporate governance guidelines and the society performance. For this analysis, the regression equation is:

Society Performance = 4.995 + 0.397 Government corporate governance guidelines.

$$C_P = 4.995 + 0.397CGG$$

The un-standardized coefficient sign (Beta) is positive meaning that as the magnitude of the independent variable (Government corporate governance guidelines) increases; the magnitude of the dependent variable (Society performance) also increases. The standardized coefficient (Beta) provides basis for judgment on the relative importance of the variables to the dependent variable

4.4 Pearson's Coefficient of correlation - r

In measuring the correlation between the independent and the dependent variables, r was used. The table below shows the correlation matrix of society performance and the independent variables; government corporate governance guidelines.

Table 4.2.12: Correlation Matrix of SP and GG

		Governance Guidelines	**Society Performance**
Governance guidelines	Pearson Correlation	1	.523**
	Sig. (2-tailed)		.000
	N	71	71
Society Performance	Pearson Correlation	.523**	1
	Sig. (2-tailed)	.000	
	N	71	71

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

Source: Survey Data, (2014)

The correlation matrix table shows that Society performance has a moderately significant positive relationship with government corporate governance guidelines as measured by r=0.523. The matrix portrays a positive linear relationship between the society performance and the government corporate governance guidelines; however, the strength of the relationship is moderate and therefore research found out that government guidelines affect Society performance of the coffee societies.

5.0 CONCLUSION AND RECCOMMENDATION

The general objective of the study was to assess the effects of the corporate governance practices on the society performance of coffee co-operative societies in Kisii Central District, Kisii County, Kenya.

The first objective was to establish the extent to which coffee cooperative societies in Kisii Central District have practiced the Government Corporate Governance guidelines. To achieve this, the study considered; timely transaction and documentation done within specified time, services to members done within specified period, members issues attended and responded immediately, open leadership and democracy practiced and upholding of high moral values. The study established that the only guideline that is highly practiced by the coffee societies is the transaction and documentation done within specified time with a mean of 3.253 out of the possible 5. The results also showed that most of the societies do not implement the guidelines on members issues attended to and responded to immediately and high moral values practiced contrary to the requirement of the Public Officer Ethics Act, 2003.

The second objective was to establish the level of Society performance of the coffee societies in Kisii Central District. To achieve this, the study considered; accurate weighing and recording members coffee deliveries, time taken to processing members produce, the number of bags processed coffee sold, the rate of payment per kilogram of coffee and timely payment of members dues. The study revealed that coffee societies have moderately performed well in their timely processing members produce and prompt in member's payment of their dues. However, this did not translate to an improvement in the general Societies' performance. The findings also revealed that membership of the coffee societies have remained constant. This might have been a result of the leadership problems which were found to be highest among the societies under the study area, no improvement in, pay-out rate and no increase of number coffee bags marketed and sold. The study established that the Society performance of coffee societies in Kisii Central district was on average low with the majority of the respondents describing their performance to be deteriorating with a weighted mean score of 2.12 on the scale.

The third objective of the study was to analyze the relationship between the extent to which Coffee societies have practiced the corporate governance guidelines and their level of performance. The study established that there was a positive but weak significant relationship between the level of Society performance and the government corporate governance guidelines, as only 21.3% of the variations in the Society performance could be explained by the practice of the government corporate governance guidelines.

In respect of the finding that the coffee Societies have to little extent practiced the Governments' corporate governance guidelines, the study concluded that, the practices have not translated into overall better performance of these Societies in the study area. This is evident from the weighted mean score of 2.07 on the scale indication that the performance is on a little extent.

Therefore, based on the above findings and conclusion, the study recommends to the government through the Ministry of Cooperative Development and Marketing to provide training programs in governance issues for the management committees of the coffee societies to help them improve their management in decision making. The Ministry of Cooperatives needs to sensitize members of the sector on the existence of the guidelines since lack of this was the major challenge mentioned by most of the respondents. The management of the coffee cooperative societies should have copies of the Cooperative Societies Act and Rules since these are the relevant sources where the governance guidelines are found. Additionally, for corporate governance guidelines to be effective, the government from time to time needs to consider the overall continuous changes that take place from time to time in the corporate world. The management committees and other officials of the cooperative societies should establish management support networks to enable them to obtain new ideas and useful information for the promotion of the sector. This will allow them to compete with other established corporate institutions since this was found to be one of the major problems that the sector faces.

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