

**AN EXAMINATION OF THE EFFECT OF CORPORATE GOVERNANCE
PRACTICES ON THE FINANCIAL PERFORMANCE OF HOUSING
COOPERATIVES IN NAIROBI COUNTY**

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ABSTRACT

Housing cooperatives were introduced in Kenya in the early 1980s to strengthen marketing and resource mobilization initiatives of small scale producers. Official statistics obtained from the Ministry of Co-operative Development show that there were 650 registered housing co-operatives affiliated to National Co-operative Housing Union (NACHU) as at the year 2014, with only 248 being active with 400 others being dormant and 2 having been liquidated (Co-operative Yearbook Kenya, 2013). This clearly indicates that 62 per cent of the housing cooperatives have not achieved the objectives for which they were formed. The purpose of this study was to critically examine the effect of Corporate Governance Practices on the financial performance of housing cooperatives in Nairobi County. The study was guided by the following theories: the Agency theory, the Stakeholder theory, Stewardship theory and Institutional theory. The study adopted a descriptive research design. The design was more appropriate for this study as it is being used to assess current practices and made judgment without manipulating or controlling the variables. The target population is 650 housing cooperatives. Random sampling technique was used to obtain the sample. A sample size of 59 housing cooperatives was used which was derived using the Fischer formula. The study used questionnaires, group discussions and interviews to collect primary data. Secondary data was sourced from reports, publications, journals, public records and statistics from the Kenya National Bureau of statistics. A pilot study was carried out to ascertain reliability. Reliability was determined using the Cronbach coefficient Alpha. A coefficient of 0.9 was computed implying a high degree of reliability of the data. Validity of the research instrument was ascertained through content validity. Data was analyzed using both descriptive and inferential statistics. Descriptive analysis included frequencies, percentages, mean and standard deviation. Statistical significance was analyzed by the correlation co-efficient (r), R-squared, the F test and standard error of the estimate. The research findings were presented through tables and charts. The major findings of the study were that corporate governance practices significantly affect financial performance of housing cooperatives. Pearson correlation co-efficient of $r=0.366$ for accountability and financial performance was generated indicating a statistically significant effect. For auditing and financial performance a Pearson correlation co-efficient of 0.351 was generated while separation of ownership and financial performance yielded a Pearson correlation co-efficient of 0.289. Moderating variables and financial performance yielded a Pearson correlation co-efficient of 0.310. A multiple regression model $FP = 3.805 + 1.562 ACT + 5.589 AU - 1.83 SO + 0.260 MV$ was used to determine the effect of corporate governance practices on the financial performance of housing cooperatives. The study recommends that an independent oversight regulatory authority on housing cooperatives should be established to regulate accountability standards especially documentation of facts and work values in housing cooperatives whereby the results findings indicated declining standards of the same. The study also recommends that the role of auditing committees should be enhanced. This resonates well with the research findings which indicated that auditing committees were not well defined in some housing cooperatives. This study will be significant to the Government of Kenya which is currently reviewing cooperative development policy. It will also be beneficial to housing co-operatives as they seek to increase their financial viability to maximize output.