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Shareholder Rights and Performance of Deposit Taking SACCO's

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ABSTRACT

Purpose: Greater attention has been paid on shareholder rights in the 21st century by shareholders, regulators and the general public. Effective shareholder protection mechanisms have played a crucial role thus bolstering shareholder confidence and retention. This study probed the influence of shareholder rights on Deposit Taking SACCOs performance in Kenya.

Design/Methodology: The relation was analyzed on the basis of all the 42 Deposit Taking SACCO's in Nairobi County. The study relied on primary data which was gathered using structured questionnaires from senior managers. Both descriptive statistics and inferential statistics were employed for data analysis.

Findings: The results affirmed that shareholder rights positively and significantly influenced Deposit Taking SACCO's performance in Kenya.

Implications/Originality/Value: This paper enriches current literature by examining the influence of shareholder rights on Deposit Taking SACCO's performance. The findings may be of vital importance to policy makers when developing policies on shareholder rights. Deposit Taking SACCOs leaders should take cognizance of shareholder rights particularly the right to participate in decision making, right to equitable treatment and right to access information so as to enhance performance.

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Introduction

Corporate governance is the relationship between an enterprise and shareholders as well as the entire society (Coleman & Nicholas-Biekpe, 2006). According to Mjahid, Sukoharson and Nuzula (2014) corporate governance refers to rules and procedures that enables firms to conduct ethical business operations as they consider stakeholders interests. Bharadwaj, (2013) averred that parties involved in corporate governance included board of directors, shareholders, management, financial institutions, contractors, workers, customers, the government including its agencies. Price (2018) pointed out that sound corporate governance not only accentuated organizational performance but also advanced trust amongst shareholders and other stakeholders.

La Porta *et al.* (1998) devised a new corporate governance analytical perspective embedded in the thought that laws linked to investor rights as well as their enforcement determined the development of corporate governance in each country. In relation to Malaysian and Ethiopian cooperatives Japelus, Hamzah and Saleh (2017) and Dayanandan (2013) confirmed that the major aspects that affected cooperatives performance were accountability, participation of members and transparency amongst other factors.

Corporate Governance principles such as shareholders right to information, to take part and vote in the shareholders general meetings, right to take part in the election and removal of board members and to get dividend should be protected by a corporate governance framework (OECD, 2004). Shareholders being the risk capital providers expect protection of their investment thus they should ensure there is a competent board to manage as well as ensure that there are effective strategies that enhance overall corporate performance.

According to MOCDM (2008), shareholders should ensure that their SACCOs are well governed. The shareholders should take part in their SACCOS decision making by attending the general meetings. For firms that are financially dependent on the market, shareholders are very important stakeholders. Shareholders are part the company's stakeholders who are either affected or have an influence over a company (Freeman, 1984). It has been established that in countries that had good shareholder protection more shares were sold by the firms (Shleifer & Wolfenzon, 2002). According to Nix and Chen (2013) there should be continual communication between investors and the investee company so as to build the investors' trust and confidence in investee companies. Studies have shown that shareholder rights have implications for companies for instance Diamond and Verrecchia (1991) and Shleifer and Vishny (1997) indicated that it resulted to reduction in agency risks, reduction in capital and enhanced firm performance (Gompers, Ishii & Metrick., 2003).

The SACCOs comprise of Deposit Taking SACCO's (DTS) and Non-Deposit Taking SACCOs. SACCO's advance loans by charging lower interest rates in comparison to other financial institutions and their main objective is member empowerment by mobilizing savings and also through credit disbursement (Moturi & Mbiwa, 2015). Dayanandan and Dagnachew (2015) contended that cooperatives' performance depended on good governance practices. Okwee (2011) established that a significant number of SACCOs exhibited poor financial performance since they complied less with corporate governance guidelines. The Cooperative Act (2012) portends that SACCO's operations should be objective in order to advance members' economic wellbeing and their welfare in line with cooperative principles and values. Similarly Dasuki and Lestari (2019) argues that the existence of cooperatives is oriented towards members' welfare which entails accomplishing the interests of its members and the community to improve their livelihoods.

Problem Statement

It has been observed that annually almost 2% of SACCO's are closed down approximately 6% of members withdraw every year Otieno, Okengo, Ojera and Mamati (2013).Thus SACCOs are facing challenges due to declining membership rate (Kiragu, 2015). Further the number of complaints made against deposit taking SACCOs by aggrieved members in the past has also increased from 122 in 2017 to 183 in 2018 (SASRA,2018).

Studies touching on shareholder rights have been done in different contexts in US (Ertimur *et al.* 2010); European Union cooperatives (Bijman *et al.* ,2012); companies in Spain and the United Kingdom (Castrillo, Marcos, Manuel & Martín, 2010). Further the studies have been done in different sectors such as banks (Kiambati, Karanja, Katuse & Waititu, 2013). Those done in SACCOs focused on private university SACCOs in kenya (Muiru, Kyongo & Onchomba, 2018) and SACCOs in Kakamega County, Kenya which also included non-deposit taking SACCOs.

(Mwanja, Marangu, Wanjere & Kuria, 2014).

While most studies indicate that shareholder rights affect performance, a few studies show contradictory findings. Studies done have established that shareholder rights is associated with greater performance (Gompers, Ishii & Metrick., 2003, Kanthapanit, 2013). However Chugh, Meador and Meador (2010) concluded that firms which had lower shareholder rights showed greater stability without reducing financial performance. Studies done in SACCOs have depicted conflicting results regarding effect of shareholder rights on performance. Wangui (2019) found that rights of members was positively correlated to performance though the relation was insignificant. Muiru, Kyongo and Onchomba (2018) established that shareholder rights as a construct of corporate governance influenced performance.

To address the contextual gaps and contradicting findings, the study intends to ascertain the influence of shareholder rights on Deposit Taking SACCOs performance in Kenya. The study therefore answers the question: Does shareholder rights influence Deposit Taking SACCOs performance in Kenya?

Main Objective

To ascertain the influence of shareholder rights on Deposit Taking SACCO's performance in Kenya.

Study Hypotheses

H_{O1}: Shareholder rights does not significantly influence Deposit Taking SACCO's performance in Kenya.

Literature Review

Theoretical Review

Clarke (2014) remarked that the agency theory placed shareholders in a higher position in comparison to all other participants in a firm in regards to influencing performance. This can be positive when shareholding is objective oriented towards performance and it can take a turn for worse when shareholding is based on shareholder enrichment which threatens financials and the future of the firm. An agency relation is a contract which arises when a principal engages another person known as the agent to perform particular services on their behalf, for instance where, managers (agents) are hired by financiers or investors to run a firm on their behalf. This may involve decision making authority being delegated to agents (Jensen & Meckling, 1976). Aboagye-Otchere*et*, Bedi and Kwakye (2014) argued that managers should improve on transparency and disclosure practices so as to reduce the agency costs which may be a result of information asymmetry. The corporate governance structure in a company aids in alleviating agency problems which could arise by assuring shareholders of constitutional, structured as well as continuous channels to enable them influence the organization's management (Alchian & Demsetz, 1972; Jensen & Meckling, 1976; Fama, 1980). Conflicts normally arise due to separation of firm ownership and management. Managers (agents) may further their own interests instead of acting in the owners (principals) interests (Aboagye-Otchereet, Bedi & Kwakye, 2014).

Review of study variables

Shareholder Rights

Shareholder rights entails balancing of power between shareholders and the managers. Boards should secure an environment that enables shareholders exercise their rights, such as voting rights, equitable treatment such that they may seek redress if their rights are violated and the right to information. Sacco members are entitled to enjoy shareholder rights. There are variations amongst organizations around the world due to the level of investor protection against expropriation by management and the controlling shareholders of private benefits. Recent studies have suggested that the degree to which investors are protected in particular a country is an essential factor influencing development of the financial markets. Further, shareholder rights are an important aspect of sound corporate governance systems (Mallin & Melis, 2012). La Porta *et al* (2000) alluded that these rights may be enforced through regulations and laws, but the extent to which investors are offered protection differs amongst countries.

Kiambati, Karanja, Katuse and Waititu (2013) posited that shareholder rights reflected their ability to regulate the organization's property, get rid of management that's not producing desired results or that's exploitative or make a change in ownership to effectively add stockholder value. Firms that effectively protected shareholders had a better chance of being involved in risky investments which could result in the creation of value for the firm (John, Litov &Yeung, 2008). Shareholders rights was conceptualized as right to participate in decision making, right to equitable treatment and right to access information.

King and Wen (2011) reiterated that firms are supposed to recognize the right of shareholders' at general meetings to participate and vote and also to select board members. Kinyuira (2017) argued that member participation could be enhanced by engaging in member education and providing relevant information. Battaglia, Bianchi, Frey and Passetti (2014) argued that all members of cooperatives should participate in making decisions and governance as a basic principle of cooperatives. While studying cooperatives in Kenya Njiru (2014) concluded that successful cooperatives allowed members to participate, had the ability to achieve set objectives and also had a high management capacity.

All shareholders have the right to equitable treatment. This right involves obtaining effective redress in case their rights are violated (OECD, 2004). Furthermore all the shareholders are entitled to same voting rights and are also entitled to adequate information regarding the right to vote and this should precede buying of shares (Shanikat & Abbadi, 2011).

Moreover, shareholders are entitled to appropriate organizational information that's supposed to be disbursed frequently and on time by means of a notice for the shareholder meeting held annually. In the Sacco societies, supreme authority is vested in the general meetings thus the annual general meeting should be convened within the four months subsequent to the end of its financial year (GOK, 2010).

GOK (2012) provides that each co-operative society member has a right to only one vote in the societal affairs, irrespective shareholding number. Moreover, the members are entitled to attend and even participate in decisions that are taken at the society's general meetings, right to be elected to societal organs, subject to society's by-laws, right to enjoy the using the societies facilities as well as services of the society and the right to all the society's legitimate information including: internal regulations, general meetings minutes, supervisory committees reports, investigation reports, registers, annual accounts and also inventories that are kept at the head office. Gijselinckx (2009) concerted that giving adequate, clear as well as transparent information was an indispensable member involvement factor and allowing members to participate democratically was advantageous to them.

Organizational Performance

Organizational performance refers to an organizations actual results or even output as measured against the intended results or output (Tomal & Jones, 2015). For decades firm performance has been at the center of strategy research with specific attention to why firms have different levels of performance (Foss, 2013). Studies done in SACCO's have measured performance using growth in deposit membership, turnover, asset base and customer satisfaction (Mbaabu, 2016; Mwanja, Marangu, Wanjere & Kuria, 2014). In this study the performance indicators were satisfaction level of customers, membership level, asset base level and deposit base.

Empirical Review

Shareholder Rights and Performance

Ignorance of shareholder votes by Boards of directors has resulted to negative image and lower rating by the governance firms that engage in rating. Such directors have minimal chances of being re-elected and have a higher likelihood of losing other directorships in US (Ertimur *et al*. 2010). Proposals made by shareholders may thus reduce agency costs as directors will have to respond to shareholder concerns (Thomas & Cotter 2007).

Gompers, Ishii and Metrick (2003) established that firms that focused greatly on empowering shareholders were placed highly by the market. Therefore, high degrees of the shareholder rights was linked to returns that were positively not normal, high values of firm, high profitability, lower capital expenditures, high sales growth and even fewer acquisitions. Thus shareholder rights resulted to greater performance. Similar sentiments were expressed by Kanthapanit (2013) who studied Thai banks and ascertained that legal protection of investors positively influenced performance.

According to Mohd-Sulaiman and Rachagan (2016) modern firms can run efficiently if shareholders have the ability to control business operations and decision making. Firms that had greater shareholder rights and high disclosure levels were able to reduce their cost of capital in comparison to those that had weaker shareholder rights and lower disclosure levels (Cheng *et al.*, 2006). La Porta *et al.*, (2002) established that in countries that had better shareholder protection mechanisms the firms enjoyed a higher valuation.

Also Chugh, Meador and Meador (2010) evaluated firm financial performance that had varying levels of shareholder rights. The study affirmed that firms that had great shareholder rights would perform better only up to a certain level but after being adjusted for volatility those with low rights of shareholders would perform better. The study concluded that firms that had lower rights of shareholder showed a great stability without diminishing performance financially unlike firms that had greater shareholder rights which had adverse effects such as distortion of managerial enterprise, innovation, slow and inflexible decision making process and diminution of franchise value due to other stakeholders' interests being sacrificed.

Castrillo, Marcos, Manuel and Martín (2010) established that ownership concentration and investor protection were substitute mechanisms that increased firm value in a study conducted in Spain and United Kingdom companies. Further they postulated that in each country the internal governance mechanisms used were ascertained by legal protection that was offered to investors. However in this study investor protection was a moderating variable unlike the current study where it is an independent variable. La Porta *et al.*, (2002) also alluded to the fact that protecting shareholders led to higher firm valuation.

Kiambati, Karanja, Katuse and Waititu (2013) carried out a study in commercial banks in Kenya on shareholder's control role on financial performance and the findings indicated a link between greater shareholder empowerment and higher earnings quality. The relation was controlled by firm specific factors. Mwanja**,** Marangu, Wanjere and Kuria (2014) conducted on a study on influence of corporate governance on performance. Most respondents agreed that members were involved in decision making in SACCOs. Findings revealed that corporate governance influenced performance of SACCOs.

Studies have been done by Huang, Zazale, Othman, Aris and Ariff (2015) and Liang, Huang, Lu and Wang (2015) on effect of members participation on cooperative and economic performance.

However the studies yielded contradictory results as one found that it did not significantly influence performance while the other found that it influenced performance. In study carried out in European Union cooperatives, Bijman *et al.* (2012) found that members' proportional voting rights positively impacted on performance of the cooperatives.

Muiru, Kyongo and Onchomba (2018) in their research conducted in private universities SACCOs in Kenya on corporate governance effect on the performance found that corporate governance positively and significantly influenced performance. Corporate governance was operationalized as rights of shareholders, board role, full disclosure and ethics culture. Shareholder rights positively and significantly influenced performance.

Wangui (2019) examined Corporate Governance influence on SACCO performance in Nairobi County. Specifically the study focused on effect of board structure, board committees' and members' participation on SACCO performance. Members' participation had members' education and training, members' welfare, rights of members and business self-reliance as its indicators. Regarding correlation results on rights of members the findings revealed that it was positive but insignificant (r=0.073). However the overall influence of corporate governance on performance was positive and significant.

Research Method

This study was directed by positivism philosophy. The study utilized both descriptive and correlational research designs. Focus was on all the 42 DTS's in Nairobi County (SASRA, 2018) thus census approach was utilized. The study relied on primary data gathered using questionnaires that were structured which were served on 126 senior managers. The questionnaires had items on shareholder rights and on performance which were measured using a Likert scale that was 5-point ranging from 1-5 (Strongly Disagree to Strongly Agree). The measures of shareholder rights were adapted La Porta *et al* (1998) while those on performance were adapted from previous SACCO studies (Mbaabu,2016; Mwanja, Marangu, Wanjere & Kuria, 2014). Data was analysed using descriptive statistics and inferential statistics. For descriptive statistics mean and also standard deviation were used. For inferential statistics the study used Pearson's correlation and simple linear regression analysis. The simple linear regression equation for shareholder rights on performance was as provided:

$Y = \beta o + \beta_1 X_1 + \varepsilon$

βo= Constant,

B_1=Coefficients of determination,

X_1=Shareholder rights,

$\boldsymbol{\varepsilon}$ = Error term.

Results

Response Rate

Out of the 126 questionnaires distributed 102 were filled and returned representing 81% response rate that is above the adequate 50% as has been recommended (Fisher, 2010).

Descriptive Analysis results

Descriptive analysis was done for the study variables which included shareholder rights and performance of Deposit Taking SACCOs.

Table 1: Responses to statements on Shareholder rights

	N	Mean	Std. Deviation
Shareholder involvement in decision making	102	4.3922	.49064
Shareholder equitable treatment	102	4.2745	.56563
shareholders accessibility to information	102	4.3333	.47373
Valid N (listwise)	102		

Source: Research Data 2019

The extent to which the Deposit Taking SACCOs manifest the various shareholder rights is presented (Table 1). The results depict high ranking for shareholder rights indicators (mean score range from 4.27 for equitable treatment to 4.33 for access to information to 4.39 for involvement in decision making). This implies that these aspects are manifested by the Deposit Taking SACCOs to a large extent. Similar sentiments regarding shareholder involvement in decision making have been echoed by Mwanja**,** Marangu, Wanjere and Kuria (2014) whose findings indicated that members were involved in decision making in SACCOs.

Table 2:Responses to statements on Performance of Deposit Taking Saccos

	N	Mean	Std. Deviation
Increase in customer satisfaction level	102	3.91	.630
Improvement in Customer loyalty over time	102	3.66	.848
Prompt response to customer feedback/complaints	102	4.21	.726
increase in membership base	102	3.83	.955
Asset base growth	102	4.17	.968
Member's deposit base growth	102	4.16	.879
Valid N (listwise)	102		

Source: Research Data 2019

The extent to which the Deposit Taking SACCOs manifest the various organizational performance aspects is presented (Table 2). The results depict high ranking for performance indicators (mean score range from 3.66 for customer loyalty to 4.21 for response to customer feedback). This implies that these aspects are manifested by the Deposit Taking SACCOs to a large extent.

Inferential Analysis Results

Correlation Analysis Results

Pearson correlation was used to determine the association between shareholder rights and DTS's performance in Kenya.

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Table 3: Correlation coefficient of shareholder rights

		Shareholder rights	Organizational performance
Shareholder rights	Pearson Correlation	1	.394**
	Sig. (2-tailed)		.000
	N	102	102
Organizational performance	Pearson Correlation	.394**	1
	Sig. (2-tailed)	.000	
	N	102	102

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

Source: Author, 2019

Table 3 above indicates that shareholder rights correlates positively and significantly to performance ($r=0.394; p<0.01$).

Results on Simple Linear Regression Analysis

Simple linear regression analysis was employed to establish the contribution made by shareholder rights to performance and consequently to test the study hypotheses.

Table 4: Model summary for Shareholder Rights

Model[b]	R	R^2	Adjusted R^2	Std. Error of	Change Statistics

				the Estimate	R^2 Change	F Change	df1	df2	Sig. F Change
1	.394	.156	.147	.61048	.156	18.430	1	100	.000

The value of R^2 is 0.156 as seen in table 4 above. This shows that shareholder rights explains 15.6% of performance variance of Kenya's DTS's. Hence 84.4% could be attributed to factors that were not part of the study.

Table 5: ANOVA[a] for shareholder rights

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	6.868	1	6.868	18.430	.000[b]
	Residual	37.268	100	.373		
	Total	44.136	101			

a. Dependent Variable: Organizational Performance
b. Predictors: (Constant), Shareholder rights

Table 5 provides variance analysis results (ANOVA) which exhibits a statistically significant overall model. Further, this results imply that shareholder rights predict DTS's performance.

Table 6: Coefficients[a] for shareholder rights

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1.175	.660		1.782	.078		
	Shareholder rights	.651	.152	.394	4.293	.000	1.000	1.000

a. Dependent Variable: Organizational performance

According to the regression of coefficients results in Table 6, substituting the equation;
$Y=\beta o+\beta_1 X_1+\varepsilon$ becomes
$Y= 1.175+0.651\ X_1$
A unit increase in shareholder rights results to 0.651 performance increase and it is significant. Hence shareholder rights positively and significantly influenced performance of DTS's.
On the basis of the study hypothesis, the null hypothesis was thus rejected that is shareholder rights does not significantly influence performance of DTS's in Kenya P (0.000) < 0.05.

The findings support assertions by Gompers *et al* (2003), Castrillo, Marcos, Manuel and Martín (2010), Kanthapanit (2013) and Muiru, Kyongo and Onchomba (2018) that shareholder rights influenced performance. Contrarily, Wangui (2019) found that rights of members was positively correlated to performance though the relation was insignificant. Also Chugh, Meador and Meador (2010) affirmed that firms that had great shareholder rights would perform better only up to a certain level but after adjustment for volatility firms with low shareholder rights would perform better.

Conclusion

The study found that shareholder rights positively and significantly influenced performance of Deposit Taking SACCOs. This research builds up on literature by determining the influence of shareholder rights on DTS's performance as it results to increase in performance. It thus supports the agency theory which postulates that the board has a role to protect shareholders interests in order to bolster performance. The study recommends for DTS's to take cognizance of shareholder rights as it enhances performance. In particular shareholders right to participate in decision making, right to equitable treatment and right to access information should be recognized by DTS's.

Suggestion for Further Research

The study should be replicated in Deposit taking SACCOs in Counties other than Nairobi and be extended to other countries since it was done in, Kenya. The study should also be extended to non-Deposit Taking SACCOs. Further, the study can be replicated in other institutions other than SACCOs since characteristics of organizations differ. Future studies should consider other measures of performance such as return on investment, return on equity, and turn over. This article focused only on shareholders. But there are other stakeholders who also invest in DTS for instance suppliers and creditors thus further studies should be done on the influence these other stakeholders have on performance of DTS. Lastly, future studies should also consider bringing in mediating or moderating variables as the study was limited to direct influence of shareholder rights on performance.

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