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Influence of Equitable Treatment of Shareholders on Financial Performance of Deposit Taking Saccos In Nakuru County, Kenya

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ABSTRACT
Shareholders play a very important role in the corporate governance framework. However, the influence of equitable treatment of shareholders on financial performance of deposit taking Saccos in Kenya has not been previously examined. Therefore, the present study sought to examine the influence of equitable treatment of shareholders as a corporate governance practices on financial performance of deposit taking Saccos in Nakuru County. The study was guided by the Stakeholders' theory and adopted descriptive survey research design targeting all the 13 deposit taking Saccos in the County. Data was collected from the management of the Saccosusing pilot tested self-administred open-ended questionnaires. The data was analyzed using content analysis with the aid of Nvivo software. The findings revealed that the equitable treatment of shareholders influenced financial performance of deposit taking Saccos in Nakuru County, Kenya. The study, therefore, recommends that; the Saccos by-laws should be expanded to give minority shareholders special voting rights that can allow them to exercise similar controlling rights as majority shareholders in the Saccos in some occasions especially those requiring a vote on recommendations for financial management.
Keywords: Deposit Taking Saccos, equitable treatment, financial performance, shareholders
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I. Introduction

Corporate governance isat the forefront in many economies as a result of the vital role it plays in the overall health of economic systems (Carcello, Hermanson& Ye, 2016). Good corporate governance ensures that the business environment is fair and transparent and that companies can be held accountable for their actions. Good corporate governance contributes to sustainable economic development by improving firms' performance and enhancing their access to foreign investors (Schneider&Scherer, 2015). Conversely, poor corporate governance results in waste management, mismanagement of corruption. It is also important to remember that although co-operative governance has emerged as a way to manage modern equity joint ventures it is very important for state-owned enterprises, cooperatives and family businesses. No matter what the type of business, only good governance can bring about good business performance.

The development of a strong corporate governance framework in any economy is key to the protection of shareholders, maintaining investor confidence in the transition countries and attracting foreign direct investment which can promote sustainable economic development and growth in states (Hermalin&Weisbach, 2014). Shareholding plays a very important role in the capitalization and decision making in firms. As such, the corporate governance framework must protect and exercise the rights of shareholders and ensure equitable management of all shareholders including small and foreign shareholders. All shareholders should have the opportunity to seek redress for violating their rights.

Investors have certain intellectual property rights. For example, a share equity in a publicly traded company can be bought, sold, or transferred. Equity allocation also gives the investor the opportunity to participate in business profit and the share is limited to the value of the investment (McGee, 2009). In addition, equity share ownership provides the right to information about the organization and the right to influence the company, especially by participating in general shareholder meetings and voting. As a matter of fact, however, the company cannot be ruled by a shareholder referendum (Lotfi et al., 2020). Shareholders have the right to influence the business center on certain important matters, such as, the election of board members or other means of influencing the structure of the board, amendments to the company's documents, approval of informal transactions, and other fundamental issues as defined in company law and internal company policies (Utami&Pernamasari, 2019).

Fundamental rights of shareholders should include the right to: obtain ownership registration methods; transfer or transfer shares; obtain relevant and relevant information from the organization on a regular and regular basis; participate in and vote at general shareholder meetings; elect and remove board members, and; share the benefits of the organization. In addition, shareholders should be adequately informed about, and have the right to approve or participate in, decisions regarding fundamental changes in companies such as: amendments to laws, or inclusion articles or similar company documents; approval of additional shares; and informal transactions, including the transfer of all or almost all assets, leading to the sale of the company (Dao & Nguyen, 2020).

Savings and Credit Cooperative Organizations (Saccos) are membership is made up almost entirely of shareholders. A Sacco is a type of cooperative whose objective is to pool savings for the members and in turn provide them with credit facilities (Lari, 2019). Other objectives of Saccos are to encourage thrift amongst the members and also to encourage them on the proper management of money and proper investments practices. The Kenyan Sacco sector is the largest in Africa and the seventh worldwide (Ademba 2010). The country has one of the most vibrant cooperative sectors in Africa with over 15,000 registered societies and unions, only a small number of which are registered deposit-taking Saccos.

The Saccos in Kenya are, nevertheless, confronted by myriads challenges that include poor record keeping, loan backlogs, high illiteracy level among the Sacco members, audit arrears, managerial deficiency, inadequate capital and heavy taxation. Poor corporate governance has also emerged as a serious challenge to the Saccos and one that poses an existential threat to the Saccos. Several ongoing fraud investigations involving Saccos have revived calls for more stringent prudential rules for such societies. Kiruga (2019). All these point to poor corporate governance practices that have persisted despite successive regulatory reforms in the Sacco sector.

As a major urban center in Kenya (actually being the fourth largest town in the country), Nakuru has been consistently attracting diverse businesses seeking to operate in the county. Consequently, it has a well-developed financial sector of which the Saccos form a significant part.

1.2 Statement of the Problem

The growing corporate governance challenges in the Sacco sector in Kenya, despite the increased regulation in the sector, are worrying. Increased failures of Saccos in most cases can be traced to their internal management systems and specifically corporate governance. If the trend continues, the thriving Sacco industry can lead to massive losses in savings and significantly impair the economy. There is, therefore, need to carry an in-depth study focusing on the influence of corporate governance and particularly the aspect of equitable treatment of shareholders on financial performance of Saccos in order to address the failing confidence in the Sacco sector in Kenya. According to Dao and Nguyen (2020), shareholders' rights include the right to be adequately informed about, and have the right to approve or participate in, decisions regarding fundamental changes in the organization that could be instrumental in strengthening corporate governance. However, the influence of equitable treatment of shareholders on financial performance of deposit taking Saccos in Kenya has not been previously examined. Therefore, the present study sought to establish the influence of equitable treatment of shareholders on financial performance of deposit taking Saccos focusing on Nakuru County, Kenya.

1.3 Objective of the Study

The objective of the study was to establish the influence of equitable treatment of shareholders on financial performance of deposit taking Saccos in Kenya focusing on Nakuru County.

II. Literature Review

2.1 Stakeholder's Theory

The study was anchored on the Stakeholders' theory which holds that corporations are social entities that affect the welfare of many stakeholders where stakeholders are groups of people or individuals that interact with a firm and are affected by the activities of the firm (Donaldson & Preston, 1995). It is this interaction that Donaldson and Davis (1991) concludes that shareholder interests are maximized by shared incumbency of the roles of the various stakeholders in a company and according to them stewardship theory is superior to agency theory. Stakeholder theory argues that the parties involved should include governmental bodies, political groups, trade associations, trade unions, communities, associated corporations, prospective employees and the general public.

In some cases, competitors and prospective clients can be regarded as stakeholders to help improve business efficiency in the market place. Stakeholder theory has become more prominent because many researchers have recognized that the activities of a corporate entity impact on the external environment requiring accountability of the organization to a wider audience than simply its shareholders (Yusoff&Alhaji, 2012). Jensen (2001) critiques the Stakeholder theory for assuming a single-valued objective (gains that accrue to a firm's constituency). The argument of Jensen (2001) suggests that the performance of a firm is not and should not be measured only by gains to its stakeholders (Jensen, 2001; Yusoff&Alhaji, 2012). According to stakeholders' theory for any firm to improve on its financial performance it must take into account interest of all stakeholders and not just those of management and owners of the firm. The theory was used to provide insight on how of equitable treatment of shareholders on financial performance of deposit taking Saccos in Kenya.

2.2Equitable Treatment of Shareholders

Previous studies have examined the implications of shareholder rights in various contexts.According to Gam, Gupta, Im and Shin (2021), shareholders should have the opportunity to participate effectively and vote at general shareholders' meetings and be informed of the rules, including voting procedures, that govern general meetings: Shareholders should be provided with adequate and timely information about the date, venue. and the agenda for regular meetings, as well as detailed and timely information on issues to be determined at the meeting. Also, the procedures and procedures of general stock meetings should allow for equal treatment of all shareholders. Company policies should not make it less expensive or more expensive to cast votes (Alnaser, Shaban& Al-Zubi, 2014).

Gompers et al. (2013) examined ways in which stock rights vary in firms. They created the 'Government Index Index' to represent a shareholder rights shareholder in some 1,500 large firms during the mid-1990s. An investment strategy that bought firms in the lowest decile of the index (most powerful rights) and sold firms in the highest downtime (weak rights) would have received an unusual return of 8.5 percent per annum during the sample period. They found that firm-owned firms with strong share prices had a higher value, higher profitability, higher sales growth, lower costs, and made fewer companies acquisitions.

Lotfi, Kashanipour, Tabrizi and Savadkouhifar (2020) studied the regulatory framework and implementation of the principle of fair and equitable treatment of shareholders by issuers in Tehran Stock Exchange. The study found that the three key themes highlighted in the IOSCO document are: fundamental rights of shareholders, reporting of transactions affecting the control and reporting of inside information holders. The most important structural weakness of the regulations in this field, is neglecting the transactions affecting the control of the company. As such, implementing the existing laws and regulations, in the area of fundamental rights of shareholders, except for the payment of dividend, implementation of laws and regulations was approved in other sectors. However, there were serious problems in the reporting of insiders, and none of these hypotheses were confirmed with the relevant sub-assumptions.

Gompers et al., (2003) have shown that firms with significant potential to develop shareholders are very important in the market. Specifically, high shareholder rights rates are associated with relatively good return on investment, high solid prices, high profitability, high sales growth and low acquisitions. Using a sample of firms from the 31st richest economy, La Porta et al., (2002) obtain evidence of higher corporate ratings in countries with better protection for fewer shareholders. Srivastava (2011) examined equity ownership and financial performance in the Bombay Stock Exchange of Indiadepicted the presence of highly concentrated ownership structure in the Indian market. The results further indicated that the dispersed equity ownership influences certain dimensions of accounting financial performance measures.

Kiambati, Karanja, Katuse and Waititu (2013) investigated the role of share control in the financial performance of commercial banks in Kenya. After controlling certain rigorous factors, the study found that large shareholder empowerment (as measured by Gomper's index) is associated with higher quality of revenue. However, this positive effect was diminished or diminished when institutional investors stayed longer with shorter investment rates. The findings of the study were found to be consistent with the view that institutional investors' focus on short-term financial performance could undermine management and increase reported earnings in aggressive accounting. It seems that institutional investors are more likely to use their increased power and influence over the conduct of management in order to increase the value of their shares in the short term.

Some studies argue that strong stock rights can reduce agency costs by reducing administrative focus, thereby reducing costs equity capital. Consistent with this theory, Cheng et al., (2006) and Huang et al., (2009) show that stronger shareholder rights as indicated by G-score are associated with lower cost of equity capital. However, prior studies (Stein, 1988; Harris, 1990; Bebchuk& Stole, 1993) also suggest that weaker shareholder rights provide managers with job securities and incentives to engage in long-term project; thus, some provisions that limit shareholder rights might reduce the cost of equity capital.

Despite the demand for equitable shareholder rights in Corporate Governance literature, the studies done on this area have not linked the specific shareholder rights to financial performance. Rather the rights are used as a measure against generalized performance of firms.

III. Research Methodology

The study adopted descriptive survey research design. The design was appropriate Since the study sought to obtain descriptive and self-reported information on how equitable treatment of shareholders on financial performance of deposit taking Saccos in Kenya focusing on Nakuru County, the descriptive research design enabled the researcher to expose the respondents to a set of standardized questions to allow comparison (Orodho, 2004). The study was also qualitative in nature following the trend of other local assessment type of studies such as Migwi (2013), Muasya (2016) and Oloo (2019).

The study focused on the 13 deposit taking Saccos in the County and used the management of the SACCOs as its unit of observation. The population was small warranting the used of a census approach. The open-ended questionnaire was used for data collection. Theopen-ended questionnaire were used after pilot testing for correctness and accuracy on a 2 non-participatory respondent sample. Piloting of the instruments was conducted over a period of 2 days in two deposit taking Saccos in Eldoret town, UasinGishu Countywhich has similar demographic patterns with Nakuru County. Further, the study Lawshe(1975) formula was used to establish the communality value and hence the content validity of the instrument's constructs. No construct fell below the communality value of 0.49 which is the accepted threshold value recommended by Lawshe (1975) indicating that the questionnaire constructs were valid and, therefore, all the constructs and their items were retained as they were.

Data obtained from the open-ended questionnaires was in qualitative form and was analyzed using descriptive methods involving content analysis and coding with the aid of the Nvivo software. According to Vaismoradi, Turunen and Bondas (2013), content analysis is ideal for the analysis of textual information. This method is preferred for the analysis of text-based information as it enables the systematic and objective identification of special characteristics encoded in messages and decoding the information contained therein (Berg & Lune, 2001).

IV. Findings and Discussions

4.1 Instrument Response Rate

From the 13 managers in 13 deposit taking Saccos in Nakuru County, only 8 participated in the interviews suggesting that the response rate was 61.5%. The response rate of 61.5% was adjudged high enough and sufficient for the current study following Gray (2019) who recommends that, a 60% questionnaire response rate or higher is good for social science and business research.

4.2Equitable treatment of shareholders on financial performance of Saccos

The study first sought to assess the influence of equitable treatment of shareholders on financial performance of deposit taking Saccos in Nakuru County, Kenya. The findings are presented and discussed as follows. Regarding the measures taken in theSaccos to ensure that the shareholders all have equal rights, there were indications that there was equitable treatment of shareholders in most Saccos. This was evidenced by reactions, such as;

"The shareholding level of members does not determine the rights in our Sacco"
"All shareholders have the same rights regardless of their status in the Sacco"
"When issues arise where voting is required, all shareholders are normally allowed or even required to vote"
"The equality of shareholders' rights is well enshrined in our constitution and by-laws"
"We encourage the reporting of discriminatory practices against shareholders and we deal with them using the Saccos mechanisms"

This meant that there were measures against discrimination of shareholders in the Saccos. The Saccos had entrenched equality of shareholders in their by-laws and shareholding level and other statuses of shareholders were not used as basis of discrimination. To uphold their rights, the Saccos had established redress mechanisms where the shareholders could channel their grievances.

In relation to the measures taken by the Saccos to ensure all shareholders have the opportunity to obtain effective redress for violation of their rights, the respondents' views were that**;**
"We try to ensure that all our shareholders have the opportunity to be heard when they feel their rights have been violated"
"Members or rather shareholders of our Sacco are sufficiently informed about, and are encouraged to participate in critical, decisions involving our Sacco"
"Our shareholders are allowed to obtain relevant and factual information from the organization on a regular basis"
"We have a committee appointed in our organization that deals with the grievances of shareholders"

"Our {Sacco} management is empowered to deal with a variety of shareholders issues and only refers to the board issues that cannot be dealt with at their level"

From the respondents' reactions it is evident that their Saccos practiced democracy and transparency as well as having a committee in place to deal with shareholder issues. Other measures included the increasing access to information for the shareholders and also allowing them to participate in decision making through voting.

Further, the study sought to establish whether all shareholders were sufficiently informed about, and have the right to approve or participate in, decisions concerning fundamental corporate changes. The respondents' opinions were that;

"Yes, but we normally ensure that our shareholders are informed of their rights when recruiting them and also regularly when conducting business"
"We don't always involve all shareholders in all corporate decision making, only where we think their input is required and most of the time that is minimal and restricted to the plenary at the AGM"
"Yes, however, such decisions are normally deferred to the Sacco's AGM"
"Yes, every time we communicate with them on an important matter we ensure that they {shareholders} are sufficiently informed about their rights"

The reactions of the respondents show that the shareholders were sufficiently informed about their rights and this was done from induction and periodically through their membership to the Saccos.
The responses were then coded and analyzed to show the weighty issues regarding the equitable treatment of shareholders on financial performance of deposit taking Saccos. The results are tabulated in Table 1

Table 1: Relevance Index of equitable treatment of shareholders in DT Saccos

Word	Count	Relevance index
Shareholders' rights	14	0.988
Sacco Issues	10	0.988
Annual General Meeting	7	0.741
Equality of Shareholders	2	0.741
Corporate Decision Making	1	0.370
Variety of Shareholders	1	0.370
Level of Shareholding	1	0.370
Grievances of Shareholders	1	0.370

From the results in Table 1, the most critical issues emerging from the respondents' opinions were shareholders' rights, Sacco issues, Annual General Meeting and equality of shareholders. These scored a relevance index of above 0.741. This shows that the shareholders' rights and issues especially equal treatment of shareholders were well emphasised. Respondents also emphasized that Sacco issues were critical and were largely addressed at Annual General Meetings. Other issues rated as highly relevant by the respondents, that is, with a relevance index of 0.370 were Corporate Decision Making, Grievances of Shareholders, Level of Shareholding and Variety of Shareholders.

4.3Financial performance of deposit taking SACCOs in Nakuru County, Kenya

The study further sought to assess the financial performance of deposit taking Saccos in Nakuru County, Kenya. The findings also indicated that some Saccos were yet to break even while for others, the competition in the financial services industry was high.

The same views were expressed when it came to return on Equity where statements such as,
"Average at best,"
"Good but not the optimal,"
"Doesn't look good at the moment,"
"Our Sacco's Return on Equity have been good since it became a deposit taking"
"Actually we have not been performing well in terms of ROE, however, we are hoping to improve that soon"
were used by the respondents to describe the status of their Saccos' financial performance in regard to return on equity(ROE).
The findings further indicate that some Saccos had seen their non-performing assets (NPAs) reduce while other were still experiencing challenges with their NPAs. These were evidenced by reactions such as;

"The NPLs [non-performing loans]*in our Sacco, for that is what we call them here, have been reducing of late"*
"I think since we made changes in the management and became more focused on corporate governance, the levels of non-performing assets have gone down significantly."

For the firms that had seen improvement in their NPAs while those that had experienced challengers indicated,
"We still have a problem with taming the Non-Performing Assets in our Sacco, especially non-performing loans" and also
"Our non-performing assets levels have remained virtually the same {slightly above average} for the last three years. We are attributing this to the shocks brought about by the Covid-19 pandemic."

Regarding their loans uptake, the results show that the loan uptake trend had been good for the Saccos. For example, some of the Sacco managers interviewed said that;
"Yes, Loans Uptakes in our Sacco have increased since it became a deposit taking," "Our loan book looks good at the moment"
"We have seen significant uptakes of only certain categories of loans compared to others."
In terms of deposit taking status, the responses were that;
"Non-Performing Assets in our Sacco have declined since it became a deposit taking"
"Yes, Loans Uptakes in our Sacco have increased since it became a deposit taking."

Repayment of Loan was also rated as among the highly relevant constructs, this was evidenced by a respondent who indicated, *"I think the market has been recovering as speaking for our Sacco, there has been a high uptake and repayment of loans in time recently."* However, there were views indicating that;
"We still have a problem with taming the Non-Performing Assets in our Sacco, especially non-performing loans"
"Non-performing loans are still a big performance problem for us and we are trying to find measures for mitigating it"

From the responses, there were indications from the findings that for some Saccos, the Return on Assets had been good in the last few years while for other it had been average or challenging. However, for those whose returns on assets (ROA) was good, they attributed it to corporate governance practices.In terms of profitability, there were mixed feelings with some Sacco managers reporting that their Saccos had been able to consistently post profits while other managers disclosed that their Saccos had not been profitable or had been struggling to remain profitable.

The responses were then were then coded and analysed to establish the weighty issues related to disclosure practices on financial performance of deposit taking Saccos. The results are tabulated in Table 2.

Table 2:Relevance index of Board Responsibilities influence in DT Saccos

Word	Count	Relevance
Significant Loan Uptake	14	0.991
Deposits	2	0.356
Repayment of Loan	6	0.324
Performing Assets Level	8	0.313
Loan Default Level	1	0.267
Covid-19 Pandemic	11	0.267
Past Performance	1	0.267
Crowded Field	1	0.267
Right Trajectory	1	0.267

The results in Table 2, the four most critical issues emerging from the respondents' opinions regarding the status of the financial performance of their Saccos were Significant Loan Uptake (RI = 0.991), Deposit (RI = 0.356), Repayment of Loan (RI = 0.324) and Performing Assets Level (RI = 0.313). These results imply that there had been some significant loan uptake in the Saccos which was critical their financial performance.

4.4 Discussions

The findings on equal rights of shareholders concur with other previous findings in different studies such as MacGee (2009) found that investors have certain intellectual property rights. For example, a share equity in a publicly traded company can be bought, sold, or transferred. Dao and Nguyen (2020) also found that allshareholdersshouldhave the opportunityto seek redress for violating their rights. Di Carlo (2014) argues that managing and controlling investors have sometimes tried to discourage unregulated or foreign investors from trying to influence the company's leadership. Further, properties and provisions that enable other shareholders to obtain a certain amount of influence or control that are not commensurate with their ownership should be disclosed. According to Gyamerah and Agyei (2016), minor shareholders should be protected from abusive practices, or for the purpose of controlling shareholders who work directly or indirectly, and should have effective remedial measures in place.

The findings are, however, in contrast to Lotfi et al., (2020) who asserted that equity share ownership provides the right to information about the organization and the right to influence the company, especially by participating in general shareholder meetings and voting. The findings further contrast with Gam et al., (2021) who asserted that shareholders should have the opportunity to participate effectively and vote at general shareholders' meetings and be informed of the rules, including voting procedures, that govern general meetings. Lotfi et al., (2020) also pointed out that as a matter of fact, however, the company cannot be ruled by a shareholder referendum.

The disagreement of the respondents reactions could arise from the fact that voting on issues is quite expensive and getting all eligible members to vote on every issue requiring a vote may not be practical in the operations of the Sacco. Alnaser et al., (2014), however, emphasized that company policies should not make it less expensive or more expensive to cast votes.The findings agree with Gyamerah and Agyei (2016) who found a correlation between shareholder rights and corporate performance, in the sense that being able to exercise shareholder voting rights, or engaging with companies through negotiations or other means such as focus lists, has a positive impact on corporate performance. The findings also disagree with an earlier study by Gompers et al., (2003) which also found that high shareholder rights rates are associated with relatively good return on investment, high solid prices, high profitability, high sales growth and low acquisitions.

V. Conclusions

The study concludes that treating the shareholders equitably was relevant to the financial performance of deposit taking Saccos in the area. This was evidenced by the finding that there was equitable treatment of shareholders in majority of the Saccos which suggested that the Saccos valued the contribution of virtually every shareholder regardless of their levels of shareholding in the Saccos. However, despite the shareholders having equal rights, they were not always involved on every issue requiring voting and, hence, their influence could not be felt in all areas of financial performance.

VI. Recommendations

The following are the recommendations of the study based on the study findings and conclusions. The Saccos should ensure that all their shareholders are sufficiently informed about, and have the right to approve or participate in, decisions concerning fundamental corporate changes especially those that have significant bearing on financial management. The by-laws should be expanded to give minority shareholders special voting rights that can allow them to exercise similar controlling rights as majority shareholders in the Saccos in some occasions especially those requiring a vote on recommendations for financial management.

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