

# Board Responsibility And Financial Performance Of Agricultural Cooperative Societies In Kericho County, Kenya

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## **Abstract**

*The major expectation of any member of an agricultural cooperative society is that the society will promote their agricultural practices, make them sustainable, and foster community development by ensuring efficiency in managing the cooperatives. However, these benefits are not always achieved since most cooperative societies occasionally post a decline in their financial performance. Previous efforts by the government to boost the financial performance and sustainability of agricultural cooperative societies through regulations have been retarded by unsound governance practices. Therefore, this study examined the influence of board responsibility on the financial performance of agricultural cooperative societies in Kericho County, Kenya. In addition, the study examined the moderating effect of firm size on the influence of board responsibility and financial performance of agricultural cooperative societies in Kericho County. The study was anchored on Managerial Hegemony Theory and targeted all 84 agricultural cooperative societies in Kericho County. A cross-sectional descriptive research design was used, and data was obtained from 49 agricultural cooperative societies' annual reports using a data extraction form covering the period between 2017 and 2022. The obtained data was analyzed descriptively using frequencies, means, and standard deviation, and inferentially using regression and correlation analysis. From the regression analysis, the study concluded that board responsibility had a positive significant influence on net profit margin. Further, the study revealed that the firm had an insignificant moderating influence on the relationship between board responsibility and net profit margin. The study, therefore, recommended that the management of cooperative societies develop policies focusing on clarifying and enhancing board responsibilities, design policies to improve the quality of decision making, and enhance attendance rate to meetings.*

**Keywords:** *Board Responsibility, Financial Performance, Agricultural Cooperative Societies, Managerial Hegemony Theory*

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Date of Submission: 08-01-2025

Date of Acceptance: 18-01-2025

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## **I. Introduction**

Agricultural cooperative societies are organizations formed by farmers combining their resources to achieve economies of scale in producing and marketing their agricultural produce (FAO, 2019). The cooperatives are important for providing market access to rural farmers and preventing exploitation by middlemen. They are involved in various aspects of the farming process, including buying, collecting, processing, and marketing produce (Roudaki, 2018). According to Maričić, Škorić, and Radenković (2018), agricultural cooperative societies assist rural farmers in overcoming challenges faced by farmers individually, such as market power, access to resources such as farm inputs and equipment, and offer a platform for collective action.

Members of agricultural cooperative societies also enjoy other benefits such as access to credit, professional advice, extension services, mobilization of savings for members, financial education, and attraction of government support (Wittman, Dennis & Pritchard, 2017). If well-managed, Cooperative societies can enhance the standards of living of vulnerable individuals and farmers by generating employment, creating wealth, and eradicating poverty in rural areas (Younas, Klein, Trabert, & Zwergel, 2019). However, extant literature has found that, like any other organization, Agricultural cooperative societies have experienced cases of mismanagement, lack of accountability, insider control, non-compliance with regulations, and lack of member participation which led to compromised financial performance.

The movement of agricultural cooperative societies has been significant globally, especially in developing countries. This movement started in the 19th century when the need for farmers to work together was motivated by the need to find solutions to the difficulties they faced due to industrialization and changes in the agrarian economy (Cuznetov, 2022). This led to the establishment of the Rochdale Society of Equitable Pioneers

in England in 1844 in the United Kingdom (Holyoake, 2020). The society laid several principles to ensure that the society's activities were carried out efficiently by ensuring equitable distribution of resources, democratic participation, open membership, and community development. Over the last decade, the financial performance of these societies was largely impacted by market conditions, regulatory changes, and internal governance practices.

In Germany, the first credit union by Friedrich Wilhelm Raiffeisen was established in 1864 after farmers recognized the benefits of collective action for marketing and purchasing (Benos, 2019). Between 2017 and 2022, the financial performance of agricultural cooperative societies in the country exhibited a significant improvement in financial performance, resilience and growth, which was attributed to a strong corporate governance and internal controls. According to the German Cooperative and Raiffeisen Confederation (DGRV), the total turnover of agricultural cooperatives increased from approximately €45 billion in 2017 to €48 billion in 2020, representing a compound annual growth rate (CAGR) of around 2.1%. Net profit margins for these cooperatives have been stable, averaging approximately 3% to 5% during this period. Stability in financial performance is attributed to long-standing tradition of collective action and robust governance frameworks that ensures transparency, accountability, and active member participation.

In countries like Austria and Switzerland cooperative societies have indicated a similar trend of improved and robust financial performance in the last seven years. The Austrian cooperative governance model majorly influenced by Germany emphasizes on transparency, member engagement, and rigorous auditing practices which led to the enhanced performance Austrian cooperatives have reported steady financial performance, with an average annual revenue growth of 2% to 3% between 2017 and 2022. The profit margins during the period remained stable at an average of 4% to 6%, due to effective governance practices, internal controls and compliance practices (Younas *et al.*, 2019; Muinde, Gatawa & Mungai, 2024). Similarly, Swiss cooperatives have maintained stable revenue growth, with average annual revenue increasing by 3% to 4% over the same period. Net profit margins have been stable, ranging from 5% to 7%, reflecting the effectiveness of their internal controls and governance practices

In the USA and the neighboring countries, the development of agricultural cooperative societies was motivated by challenges faced by farmers from powerful railroad and grain elevator companies, which led to the passage of the Capper-Volstead Act in 1922 (Wittman, Dennis, & Pritchard, 2017). The law granted agricultural cooperatives limited exemptions from antitrust laws, enabling farmers to collectively market their products and improve their bargaining power. However, since the start of this movement, agricultural cooperative societies in the USA have experienced varied financial performance especially from 2017 to 2022. According to the USDA's Rural Business-Cooperative Service, net profit margin for agricultural cooperatives in the country saw an increase from approximately \$200 billion in 2017 to \$215 billion in 2020, reflecting a compound annual growth rate (CAGR) of around 2.4% (Turvey, 2017).

In contrast, the financial performance of agricultural cooperatives in Mexico has been more mixed. While some cooperatives have benefited from strong internal controls and governance, others have struggled with issues related to transparency and financial mismanagement. The Mexican government's efforts to support cooperatives through policies and funding have had a positive impact despite having numerous challenges such as lack of timely disclosures. The average net profit margins for agricultural cooperatives in Mexico have been lower compared to the USA and Canada, ranging from 2% to 4% between 2017 and 2022

In Africa, agricultural cooperative societies in most countries have experienced a decline in their financial performance largely attributed to inefficient internal management practices and weak governance structures that led to low revenue growth and minimal profit margins (Masango, 2015).

According to Baiyegunhi, Majokweni, and Ferrer (2019), agricultural cooperatives in Namibia, faced a decline in financial performance between 2015 to 2022. Weak corporate governance related to board responsibility alongside other components led to financial instability leading to dissolution of more than five agricultural cooperative societies that were once vibrant. However, the Namibian government has been proactive in addressing these issues by introducing reforms aimed at improving transparency and accountability within cooperatives. Despite these efforts, the financial performance of cooperatives has been modest, with average annual revenue growth of about 1% to 2% and net profit margins ranging between 2% to 3%. However, agricultural cooperatives in Botswana registered a relatively better performance compared to South Africa and Namibia. With an annual revenue growth of 3% to 4% and net profit margin of Net profit margins have also been more robust, averaging around 4% to 5%. This was after the Cooperative Association of Botswana emphasized on the implementation of corporate governance policies and stringent internal controls with hefty fines on boards that contravened these policies.

In Nigeria, agricultural cooperative societies have a long history, dating back to the establishment of the Marketing Cooperative Federation (MACBAN) in 1935. This organization was created to mitigate the exploitation of farmers by middlemen. Despite the early promise, the financial performance of agricultural cooperatives in Nigeria has faced significant challenges over the years, primarily due to poor financial management and weak internal controls. According to Adeyemi (2014), many agricultural cooperatives societies

have struggled with liquidity problems due to poor financial management, weak internal controls and lack of transparency which have further worsened the situation, leading to financial instability.

According to the Tanzanian Federation of Cooperatives (TFC) (2023), cooperative societies in country saw an improvement in financial performance between 2015 and 2022. The cooperatives societies reported an average annual revenue growth of 4% to 5%, with a rise in net profit margin of 2.5% to 3.5%. In some parts of the country such as Iringa, agricultural cooperatives societies achieved annual revenue growth rates as high as 7%. This growth was attributed to effective corporate governance structures and internal controls implemented by cooperative associations.

The history of agricultural cooperative societies in Kenya dates back to 1923 when the Kenya Farmers Association was established. Cooperative societies in the country have played a critical role in enhancing the productivity of farmers, improving market access, educating farmers on efficient farming practices, and access to affordable farm inputs (Odhiambo, 2019). After independence, the government emphasized using farmer cooperative societies to commercialize the smallholder farm sector. This goal was achieved in the late 1900s when most of the small-scale farmers were able to own their farms and produce a variety of agricultural goods for the commercial market. However, the financial performance of these cooperatives has seen a decline in recent years (Amenya & Ombui, 2016; Kiragu & Okibo, 2014).

The Kenyan government introduced a policy in 2019 aimed at improving the performance of agricultural cooperative societies. The policy includes measures to promote good governance practices such as regular audits, transparent reporting, and providing training for cooperative leaders (Saina, 2019). However, despite these efforts, there have been inconsistencies in implementing these policies, leading to ongoing financial mismanagement and inefficiencies, leading to poor performance. For example, data from the Kenya National Bureau of Statistics (2019) shows that many agricultural cooperative societies reported a decrease in revenues and profit margins. Some reported average revenues of less than 2%, while others experienced negative growth.

Several studies have pointed out the challenges faced by cooperative societies. Odhiambo (2019) and Amenia & Ombui (2016) highlighted that many cooperatives struggle with liquidity issues, affecting their ability to meet short-term obligations due to governance issues. Kiragu & Okibo (2014) also noted that operational inefficiencies and high costs lead to low profit margins for these societies due to weak internal controls. Furthermore, Saina (2019) revealed that poor governance practices contribute to declining performance. On average, the net profit margin for cooperative societies decreased from 3% in 2017 to less than 1% in 2018. Additionally, the debt-to-equity ratio exceeded 2, indicating heavy reliance on borrowed funds due to financial instability.

### **Board Responsibility**

The critical duty of the company's board of directors is to develop and implement a code of ethics to ensure that good governance is enhanced in the organization to effectively protect the stakeholders' interests (Mlay, Temu & Mataba 2022). The boards of directors are in charge of, among other things, ensuring accountability, risk assessment, risk management, performance management, and the observance of the organization's policies (Kyazze *et al.*, 2017; Kamau *et al.*, 2018; Fuente *et al.*, 2017; Mbuthia & Gatawa, 2022).

Board responsibility is a key role of the board of directors under the corporate governance mechanism that has a potential influence on the financial performance of cooperative societies. The board of directors is responsible for overseeing and making decisions on behalf of the shareholders who elect them. The board's main focus is to protect the shareholders' interests by implementing checks and balances and ensuring that there are no conflicts of interest between the board and the management of the cooperative society (Zerban & Madani, 2018).

Board members of cooperative societies have a fiduciary duty to guide the organization toward a sustainable future by enacting policies for financial management, ethical governance, and legal compliance. Additionally, they ensure that the organization has sufficient financial resources to achieve its goals. It is the board's responsibility to ensure that the cooperative society operates fairly and ethically for the benefit of its shareholders (Naciti, 2019). García *et al.* (2015) and Galletta, Mazzù, and Naciti (2021) found that the board is responsible for offering oversight, foresight, and insight on behalf of stakeholders. In addition, the board is tasked with monitoring and assessing investment risk, as well as implementing disciplinary measures.

Corporate governance mechanisms also outline the structure for achieving organizational goals by ensuring transparency and accountability to stakeholders. The organization's board of directors is mandated to enhance the financial performance of cooperative societies by implementing policies and guidelines that protect the organizations' assets. Corporate governance mechanisms such as board transparency and disclosure play a crucial role in maintaining a fair and just relationship between shareholders and management (Nugroho, 2021).

Transparency refers to the disclosure of a company's financial information in the required manner. This information includes audited financial reports, which are crucial for financial reporting and supervision. Efficient disclosure and transparency are essential for stakeholders to monitor the company's governance behavior and process (Opanyi, Omoro, Wanjare & Luther, 2023). To promote transparency, organizations must provide clear,

timely, and reliable information that is effectively prepared and accessible to all stakeholders. This includes disclosing financial information, board expenditure, stakeholder relationships, and risks, as it helps to reveal the likely trends of society (Detthamrong, Chancharat, & Vithessonthi, 2017).

Reliable and comparable information with sufficient details is crucial for potential investors and stakeholders to examine management's stewardship and make informed decisions about their share value. In addition, disclosure involves all corporate communications voluntarily shared with relevant stakeholders (Raimo *et al.*, 2020). Cunha and Rodrigues (2018) suggest that cooperative societies should ensure stakeholders and potential investors have cost-efficient and timely access to relevant information, disclose all material developments between annual reports, provide equitable treatment to all stakeholders, and disclose information that may harm the organization's competitive position

### **Financial Performance**

Financial performance is a key measure of how effectively an organization achieves its long-term objectives through its operations, typically expressed in monetary terms (Al-Najjar, 2018). It serves as an indicator of a firm's financial health, reflecting its progress toward realizing financial goals over a specified period (Odhiambo, 2019). Evaluating financial performance is crucial for assessing management's efficiency and competence. Additionally, it allows for comparative analysis, either by tracking an organization's achievements over time or comparing financial performance across firms within the same industry (Barus, 2016).

Financial performance can be evaluated by examining a firm's statement of financial position, profit or loss statement, comprehensive income, and cash flow statements (Soboh *et al.*, 2019; Ndanu & Gatauwa, 2023). To compare firms' financial performance, both objective and subjective measures are used. Objective measures are derived from financial statements and include metrics such as net income, revenues, return on assets (ROA), return on equity (ROE), earnings before interest and taxes (EBIT), operating profit margin, and net profit margin. These indicators assess a firm's stability, efficiency, and profitability.

Subjective measures are based on information derived from the appraisal of financial reports. These measures give a qualitative assessment of the financial health of an organization based on the perceptions, opinions, and judgments of the stakeholders or other users of the financial statements. These measures include customer satisfaction, management integrity, and supplier relationships, among others; while these measures can be relied on to give valuable insights into the financial performance of a firm, they can be influenced by personal biases and, therefore, fail to give a clear financial status of an organization.

Irrespective of the measures used to ascertain the financial performance of a specific cooperative society, the economic sustainability of the agricultural cooperative society is indicated by its ability to create adequate returns capable of keeping production processes and giving a reward to the other factors of production as every firm needs resources to attain its objectives and goals (Odhiambo, 2019; Gatauwa, *et al.* 2024). In the case of agricultural cooperative societies, the society's capability to meet its members' economic interests and those of other stakeholders can be indicated by financial performance measured through objective measures.

An agricultural cooperative society's financial performance is largely determined by the financial structure adopted by the firm. It can also be evaluated based on the concept of residual returns and residual controls (Baiyegunhi *et al.*, 2019). Therefore, the central perspective of the financial literature concerning agricultural cooperatives is considering them as user-controlled and user-owned firms that aim to profit associates and other stakeholders who internally co-exist as different individuals with different goals that are not necessarily aligned with each other's objectives (Delima, 2017). Therefore, evaluating and incorporating these goals into the financial performance and governance of the companies studied is necessary. The agricultural cooperative societies' financial performance was measured using net profit margin. Thus, these measure has been extensively used by previous studies assessing determinants of the financial performance of agricultural cooperative societies (Grashuis & Su, 2019; Roudaki, 2018)

Agricultural cooperative societies encounter numerous challenges that adversely affect the quality-of-service delivery to their members. These challenges, which could be micro or macro in nature, if not assessed and addressed, could lead to reduced production and limited opportunities for diversification into other business areas or markets, hence the ultimate decline in financial performance. Small-scale farmers in Kericho County, particularly those involved in the tea, dairy, and coffee sectors, have been greatly affected by manipulative middlemen who exploit their hard work and efforts due to mismanagement of cooperative societies and individual problem-solving approaches among members (Kimetto, 2018).

According to the Department of Trade, Industrialization, Cooperative Management, Tourism, and Wildlife's annual report for 2022, there are 54 agricultural cooperative societies in Kericho County. These societies generated a total revenue of Kshs 846,745,000. However, the county's agricultural production falls short of its potential due to the low volume of produce handled by the cooperative societies. This is because most of their members are inactive. The success and development of cooperative societies depend on the amount of produce handled and their operational efficiency (Ministry of Cooperatives, 2022).

### **Firm Size**

Firm size is an important aspect of corporate finance that can significantly influence a firm's financial performance (Buallay et al., 2017). Larger firms often have the advantage of issuing more shares and easily accessing external funding due to increased sales growth. Moreover, they tend to have more complex organizational structures and governance mechanisms (Abang'a et al., 2022). Unlike smaller firms, larger companies typically have bigger boards with a diverse range of expertise, which enhances decision-making processes and contributes to better financial management and outcomes.

The size of a company can help differentiate it from others in terms of its total number of assets, capital base or market capitalization, and number of employees (Ayuba et al., 2019). According to Wasike (2017), the size of a company can reflect its ability to adapt to change in both macro and micro, which can have a direct or indirect impact on its financial performance. Factors such as auditing standards, capital structure, and management structure can all affect a company's financial performance since they influence the quality and efficiency of decision-making. Detthamrong et al. (2017) argue that large companies are subjected to stricter regulatory oversight, ensuring that their governance practices are transparent and in line with industry standards.

In terms of financial performance, firm size presents both challenges and opportunities. For instance, larger firms benefit from economies of scale, allowing for efficient operations, bulk purchasing, and advantageous negotiation terms. Unlike smaller firms, larger firms have easy access to capital markets, which enables them to invest more in innovation, expansion, and research and development. Scholars have debated the relevance of firm size on the relationship between corporate governance and financial performance, albeit with mixed findings.

Past studies have established mixed findings on the relationship between corporate governance, firm size, and financial performance. For instance, Research by Mahzura (2018) found that ownership structure and size positively affect the relationship between corporate governance and financial performance. Lopez-Valeiras et al., (2016) found that larger companies have a negative correlation with financial performance; asset growth, sales growth, and firm size have a positive influence on financial performance.

According to Pratama and Wiksuana (2016), large companies are more transparent in managing cooperative societies' businesses, and the board is more responsible for executing their duties as there are more internal controls and checks than in small agricultural cooperative societies. Similarly, Dzingai and Fakoya (2017) found a significant correlation between corporate governance, firm size, and financial performance of companies listed on the Johannesburg Stock Exchange. They recommended that companies' management determine an appropriate level of tangible asset maintenance, leading to a higher liquidation value for society's assets.

### **Research Hypothesis**

**H<sub>01</sub>** Board responsibility has no statistically significant influence on the financial performance of Agricultural Cooperative Societies in Kericho County, Kenya.

**H<sub>02</sub>** Firm size has no statistically significant moderating effect on the relationship between board responsibility and the financial performance of Agricultural Cooperative Societies in Kericho County, Kenya.

## **II. Literature Review**

The theoretical, empirical, and conceptual framework are presented in this section.

### **Theoretical Review**

The study was anchored on Managerial Hegemony Theory which was developed by Mace (1971) and advanced by Mallette and Fowler (1992). The theory holds that professional managers dominate and foretell all strategic decisions, with the governing board of a company acting only as a rubber stamp. The advocates of managerial hegemony contend that CEOs and management control boards of directors, making independent and non-executive directors play a passive role. The idea that management makes corporate strategic decisions alone, without consulting the entire board, is supported by this theory. This situation is explained by the independence paradox, which holds that independent directors cannot act independently of the board due to an informational imbalance between them and the CEO. Despite having formal control over management, top management is said to dominate boards, according to the managerial hegemony theory.

According to Bohdanowicz (2014), the board of directors exists to support management for a variety of purposes, including upholding corporate law requirements, acting as an ally of management, establishing policies based on the governance system, and safeguarding the organization's assets and member investments. Aziz, Ghadas, and Hassan (2018) It is possible that non-executive directors chosen for the board during a CEO's tenure may feel a personal sense of loyalty or obligation to that CEO and neglect their responsibility to look into the interests of shareholders. The demerit of hegemony among managers is that the management shields more influence than decisions made by the board of directors. The board merely holds nominal power instead of real power. In other words, corporate management dominates the business organization, leading to having a less

effective board of directors who are not capable of executing their responsibilities, such as protecting the stakeholders' interests (Lueg, Graf, & Powell, 2020; Bohdanowicz, 2014).

The theory of managerial hegemony is well-known for its description of the duties and responsibilities of corporate board members. It provides a detailed explanation of the relationship between management and the board. As it specifically addresses the responsibilities of the board, this theory was highly relevant to this study.

### **Board Responsibility and Financial Performance**

Fuente *et al.* (2017) examined the role of the board of directors in the adoption of global reporting initiative (GRI) guidelines related to the disclosure of corporate social responsibility information in Spain. The study obtained panel data for a period of six years (20004-2010) from 98 non-financial firms listed on the Madrid Stock Exchange. Findings from the panel regression model established that the board of directors' characteristics and composition significantly influenced corporate transparency, especially when there were fewer controls and weak legal frameworks in the institutional environment. However, the study examined the board of directors' responsibility in adopting global reporting initiative (GRI) guidelines related to the disclosure of corporate social responsibility information only. In contrast, this study assessed the general responsibility of the board.

García-*et al.* (2015) carried out a study to assess the ethical commitment and responsibility of independent directors in different contexts of providing protection to the investor's interests. This was a comparative study carried out focusing on 12 countries having different legal environments with the aim of assessing the extent to which the board of directors may enhance the corporate code of behavior by designing codes of ethics. The issues that were addressed by these codes included corruption and fraud, conflicts of interest, compliance with established regulatory framework, quality in product development, and corporate responsibility. The study found that the existence of independent directors on the board led to the adoption of more complex codes of ethics. This was a comparative study targeting 12 countries that have diverse macroenvironmental factors. In addition, the study did not elaborate on the research design adopted and the data collection technique.

Kyazze *et al.* (2017) examined Uganda's cooperative societies' effectiveness and governance. The study's primary goal was to evaluate the role of monitoring, policy compliance, and innovativeness of the board and its influence on the social as well as the cooperative societies' financial performance. This study gathered data from 293 cooperative societies in Uganda using a cross-sectional survey research design. Structural equation technique and confirmatory factor analysis were used to create measurement models and statistical test modeling. The results showed that monitoring rights and the effectiveness of cooperative societies were significantly positive and favorably correlated. Besides, the correlation between innovation and performance was also strong and favorable. However, approval of management decisions, adherence to policies, and financial performance had an insignificant impact on one another.

Mlay, Temu, and Mataba (2022) examined the influence of board attributes on the performance of board roles in Saccos in Tanzania. The board attributes examined include gender diversity, board size, and meetings, while the board roles and responsibilities examined include resource provision, monitoring roles, and strategy formulation and implementation. Data was obtained from the board chairs of 198 SACCOs and analyzed using linear regression and factor analysis. The study found that board meetings had a significant positive effect on the ability of the board to execute their monitoring, resource provision, and strategic responsibilities. In addition, the board's financial skills had a positive effect on monitoring and strategic roles, while there was no evidence of board size and diversity in the board's role performance. The study was worth this review. However, it used board responsibility as the dependent variable, while this research used board responsibility as one of the predictor variables.

Kamau *et al.* (2018) sought to assess the relationship between corporate governance, strategic choice, and financial performance of financial institutions in Kenya. The specific aim of the study was to assess the effect of the board's involvement in strategic choice and financial performance of 108 financial institutions in Kenya. Strategic choice was determined by appropriate stakeholder engagement, strategic choice decision-making, and personnel empowerment. The findings revealed that corporate governance and strategic choice had a positive relationship with the financial performance of the firms. Furthermore, the study established that strategic choice had a partial mediation effect on financial performance. The study failed to illustrate the selection and determination criteria for the sample size as there are many financial institutions in the country operating in different sectors. This study focused on agricultural cooperative societies.

### **Board Responsibility, Firm Size, and Financial Performance**

Debby, et al., (2014) examined the relationship between a company's attributes, good corporate governance, and a firm's financial value in an empirical study. The independent variables examined were corporate governance (ownership structure, audit committee, and board composition), intervening variable, company size, and Tobin Q to measure the company's financial value. Multiple regression models and descriptive statistics were used in data analysis. The results established that ownership structure, board composition, and

Audit committee had a significantly negative impact on the entity's financial value. However, firm size and return on equity positively impacted the entity's financial worth. The study used Tobin Q, which is a market-based measure of financial performance. This measure has been criticized for having a short-term focus on the financial status of an organization; in addition, the measure can be affected by market fluctuations and accounting methods used by an organization. This study used net profit margin to address these gaps.

Detthamrong *et al.*, (2017) studied the relationship between corporate governance, capital structure, and firm performance of non-financial firms in Thailand. The study used a panel sample of 493 non-financial firms listed in the Thailand securities exchange between 2001 and 2014. The findings revealed that corporate governance was not related to firm performance and the firm's financial leverage. However, the firm's financial leverage was associated with its performance. Furthermore, when the firms were categorized as small and large, some relationship between corporate governance and firm performance was established.

The findings also revealed a negative relationship between audit committee size and firm performance. Financial leverage was found to mediate the relationship between audit committee size and firm performance of large organizations only. The study period of 13 years (from 2001 to 2014) is too long, and the study did not consider any control variables that could have affected the firm's financial performance. Furthermore, the study established that financial leverage does not moderate all the independent variables, which calls for further studies to assess the moderating effect of firm size on the specific components of corporate governance and financial performance.

Khongmala and Distanont (2017) carried out a study to examine the moderating effect of management systems on the relationship between CG practices and the financial performance of Thai state-owned companies' performance. The findings indicated that the performance of Thai SOEs was negatively related to the board attributes investigated. The management systems had a moderating effect on corporate governance and SOE's financial performance. The study used management systems as a moderating variable between corporate governance and the performance of Thai SOEs. The moderating effect of firm size on the relationship between corporate governance and the financial performance of agricultural cooperative societies was investigated.

Buallay *et al.*, (2017) examined the relationship between corporate governance and firm performance of listed companies in the Saudi stock exchange. Financial performance was measured by Tobin Q, ROE, and ROA. The study also measured the effect of firm size, firm age, and audit quality control variables on the relationship between corporate governance and financial performance. Pooled data for the study was obtained from a sample of 171 listed companies. The study found that corporate governance had a significant positive influence on the financial performance of the firms.

Furthermore, the study found that firm size significantly moderated the relationship between corporate governance and financial performance. However, the study used several control variables and measured financial performance using Tobin Q, ROE, and ROA. This research used firm size as a moderating variable and net profit margin to measure financial performance.

Mahzura (2018) examined the relationship between ownership structure, financial performance, leverage, company size, and the company's corporate governance values in the Indonesian food industry. The study examined financial performance using profitability ratios such as return on equity, leverage, company size, managerial ownership, ownership structure, and corporate governance. The study relied on secondary data and adopted a causal associative research design with a target population of 14 food companies listed between 2012-2016 in Indonesia's security exchange. Multiple linear regression was used for data analysis, and the results drawn from it showed that independent variables simultaneously affected the firm's value. Leverage and return on equity were found to have a partial impact on the company's value. In contrast, other variables, namely, company size, managerial ownership, ownership structure, and corporate governance, did not affect the firm value.

Dzingai and Fakoya (2017) examined the effects of corporate governance structure on the financial performance of mining firms listed on the Johannesburg Stock Exchange, South Africa. The study's independent variables were board size and board independence, while the dependent variable (financial performance) was measured by ROE. Panel data was obtained from integrated annual financial statements, mining firm's sustainability reports, and socially responsible investment index for five years (2015-2015). Firm size and firm age were used as control variables. The findings revealed a weak negative association between board size and return on equity and a positive but weak association between board independence and return on equity. The study also found that firm size had a weak and negative relationship with both board size, board independence, and return on equity. The study was carried out in South Africa, which has a higher GDP than Kenya, which may not allow generalization of the findings; in addition, the study used a single measure of financial performance. This research was carried out in Kenya, targeting agricultural cooperative societies.

Ayuba *et al.*, (2019) examined the effect of financial performance, capital structure, firm size, and the value of insurance firms in Nigeria. An ex-post facto research design and a longitudinal pane comprised of cross-sectional, time series data were adopted. The study relied on secondary data obtained from the financial records

of the selected insurance firms for a period of six years (2012-2017). Financial performance was measured by return on capital employed (ROCE) ROA, ROE while firm value was calculated by Tobin’s Q and firm size by natural logarithm of total assets. Data was analyzed using both regression and correlational analysis. The findings showed that all the explanatory and control variables except ROCE had an influence on the firm value. Whereas the study examined the moderating effect of firm size on the relationship between financial performance and firm value, this research examined the moderating effect of firm size on the relationship between corporate governance and financial performance.

Wasike (2017) examined the moderating effect of financial regulation on the influence of corporate governance, firm size, institutional quality, and human capital on financial institutional performance in Kenya. The study’s target population was 236 financial institutions, and panel data was obtained between 2010 and 2015. Data was analyzed using regression analysis. The findings revealed that all the independent variables (human capital, corporate governance, and institutional framework) except firm size had a positive significant effect on the firm’s performance. The relationship between corporate governance and financial performance was fully moderated by financial regulation. The reviewed study obtained data from 236 financial institutions from various sectors with different regulations. This research was limited to selected agricultural cooperative societies.

Abang’a *et al.*, (2022) examined the relationship between corporate governance and state-owned enterprises’ (SOE) financial performance in Kenya. The study focused on the influence of the corporate governance discloser index, independence of non-executive directors, board size, and board subcommittees on the financial performance of the SOE. In addition, the study examined the moderating effect of firm size on the relationship between corporate governance and the financial performance of SOEs. Data was obtained from 45 SOEs between 2015 and 2018. The findings revealed that all the variables, gender diversity, board skills, and board size, have a positive and significant influence on financial performance. In addition, the corporate governance discloser index, independence of non-executive directors, board size, and board subcommittees were found to have a positive and insignificant influence on financial performance. The study used the capital realization ratio to measure the financial performance of the SOEs since they are nonprofit making. This research used net profit margin to measure financial performance.

### III. Methodology

The study adopted a positivist research philosophy to maintain an objective perspective in analyzing the relationship between board responsibility and the financial performance of agricultural cooperative societies. A descriptive cross-sectional research design was used, which is ideal for answering "how" and "why" questions and testing hypotheses. This design combines the strengths of both descriptive and cross-sectional approaches, allowing for a deeper understanding of variable relationships. Furthermore, it provides accurate and valid representations of phenomena under study, reducing uncertainties (Creswell & Creswell, 2017; Gatauwa, 2020). The study focused on 81 agricultural cooperative societies in Kericho County that were operational between 2017 and 2022. This allowed the researcher to collect 270 panel data points across six years for the cooperatives, making it suitable for running a static panel regression analysis. The data, which was quantitative, was gathered from secondary sources, specifically financial statements. These included the statement of financial position, statement of profit or loss, other comprehensive incomes, and the statement of cash flows, extracted through data collection methods.

### IV. Research Findings And Discussion

This section presents the study’s findings, which were analyzed using descriptive and inferential statistics based on specific objectives.

#### Correlation Analysis

The study carried out Pearson Moment Correlation Analysis to assess the nature of the relationship between board responsibility and the financial performance of agricultural societies measured by Net Profit Margin.

**Table 1. Correlation Analysis for Net Profit Margin**

	Net Profit Margin	Board Responsibility
Net Profit Margin	1.0000	
Board Responsibility	0.0493*	1.0000

**\*5 percent level of significance**

The findings presented in Table 1 indicate that the relationship between board responsibility ( $r=0.0493$ ;  $p<0.05$ ), and net profit margin of agricultural cooperative societies was positive and statistically significant.



These findings imply that a positive correlation between board responsibility and net profit margin means that effective board responsibility characterized by the number of meetings and meeting attendance rate tends to be associated with improved financial performance. These findings are supported by Grashuis (2019), and Fuente *et al.* (2017), who established a significant correlation between board responsibility, and financial performance as measured by net profit margin.

**Panel Regression Analysis**

Panel regression was performed to test the influence of board responsibility and the NPM of agricultural cooperative societies. The null hypothesis that was tested for NPM was:

H01: Board responsibility has no statistically significant effect on the net profit margin of agricultural cooperative societies in Kenya

**Table 2. Regression Analysis for Net Profit Margin**

NPM	Coef.	Std. Err.	Z	P> Z	[95% Conf. Interval]	
Board Responsibility	-41.32327	5.272121	-7.84	0.000	-5.16585	-31000
_cons	-74.02012	157.6843	-0.47	0.639	-383.0756	235.0354
R Square (Within) = 0.8807						
R Square (Between) = 0.9500						
R Square (Overall) = 0.8825						
corr(u_i, X) = 0 (assumed)						
Wald chi2(4) = 2147.84						
Prob > chi2 = 0.0000						
sigma_u = 301.54215						
sigma_e = 1674.19						
rho = .03142112						

The results presented in Table 2 Indicate an R<sup>2</sup> for the influence of board responsibility and net profit margin was 0.8825. This implies that board responsibility had a high explanatory power on the net profit margin of agricultural cooperative societies. Further, the study established that a unit increase in board responsibility leads to a -41.3e+07 decrease in net profit margin. The Y-intercept tem is 74.02012, which represents the portion of the financial performance (net profit margin) of agricultural cooperative societies not affected by board responsibility practices

The first hypothesis of the study was that board responsibility has no statistically significant effect on the net profit margin of agricultural cooperative societies in Kenya. The results obtained for the hypothesis at a confidence level of 95% indicate a beta value of β= -41.3e+07, p-value= 0.000 <0.05, and t-value=-7.84 >1.96. The negative statistical coefficient implies that board responsibility has an inverse relationship with net profit margin. This could mean that higher levels of board responsibility in terms of meeting attendance and compliance levels are associated with lower net profit margins. Therefore, an increase in a unit of the board’s responsibility through regular board meetings caused a decrease in profitability by -41.3e+07 percent. However, board responsibility had a significant relationship with net profit margin, and therefore, the null hypothesis was rejected. These findings are supported by those of Mlay, Temu, and Mataba (2022), who found a correlation between the number of meetings held by the board and the financial performance of Saccos in Tanzania; Kamau *et al.* (2018) equally established that the board responsibility had a positive correlation with the financial performance of financial institutions in Kenya. These findings were supported by those of Cunha and Rodrigues (2018), Aly, Hussainey, and El-Halaby (2018), which established a positive relationship between board responsibility, composition, and financial performance.

**Test for Moderated Effect**

The study sought to examine the moderating effect of firm size on the relationship between board responsibility and financial performance (NPM). The moderating effect of firm size was tested using Whisman and McClelland's (2005) two-step model. The first step in this model involved running the moderator as an independent variable in addition to other explanatory variables. If the obtained coefficient of the variable (firm size) is significant (<0.05), the study concludes that the moderating variable is an independent variable. If the variable is insignificant, then the second step is carried out, including the interaction term of the moderator on each predictor variable.

**Table 3: Board Responsibility, Firm Size and Net Profit Margin**

Net Profit Margin	Coef.	Std. Err.	Z	P> Z	[95% Conf. Interval]	
Board Responsibility	-2.90020	5105822	-5.68	0.000	-3.90e+07	-1.90e+07
Firm Size	15469.87	2086.707	7.41	0.000	11380	19559.74
_cons	3.800661	92.12171	0.04	0.967	176.7546	184.3559
R Square (Within) = 0.9004						

R Square (Between) = 0.9405					
R Square (Overall) = 0.9013					
Wald chi2(5) = 2631.40					
Prob > chi2= 0.0000					
corr(u_i, X) = 0 (assumed)					
sigma_u 0					
sigma_e = 1532.1908					
rho = 0					

The results presented in Table 3 revealed a R<sup>2</sup> of 0.9013. This suggests that board responsibility practices and firm size, significantly influence the NPM of agricultural cooperative societies. Further, the study established that board responsibility has a negative coefficient of -2.900 and a p-value of 0.000<0.05, and Firm size had a positive coefficient of 15469.87 and a p-value of 0.000<0.05. The Y-intercept term is 3.800661 which represents the portion of the NPM of agricultural cooperative societies not affected by board responsibility practices

**Table 5: Moderating Effect of Firm Size**

Net Profit Margin	Coef.	Std. Err.	Z	P> Z	[95% Conf. Interval]	
Board Responsibility	-413252	5272121	-7.84	0.000	-516525	-310200
Firm size	3687.012	1515.487	2.43	0.015	716.7109	6657.313
Firm Size*Board Responsibility	424.1815	400.7748	1.06	0.290	-361.3227	1209.686
_cons	99.81513	60.02935	1.66	0.096	-17.84023	217.4705
R Square (Within) = 0.9597						
R Square (Between) = 0.9700						
R Square (Overall) = 0.9599						
corr(u_i, X) = 0 (assumed)						
Wald chi2(9) = 6800.58						
Prob > chi2 = 0.0000						
sigma_u = 0						
sigma_e = 981.85568						
rho = 0						

Step one of the moderation effect result involved running firm size as an independent variable. The other coefficients presented in the table were extracted from the direct relationship model results presented in Table 3. The study revealed an R-squared value of 0.9599, which implies that a 95.5% change in the net profit margin of the agricultural cooperative societies could be explained by the independent variable (board responsibility) of the study. The findings revealed that the p-values for board responsibility (p=0.0000, <0.05) were significant. In addition, the coefficient for firm size was insignificant, with p=0.0000<0.05. Therefore, since the coefficients of firm size were significant, the null hypothesis that firm size is an explanatory variable was accepted, and the alternative that firm size is a moderating variable was rejected (Whisman *et al.*, 2005)

The study examined whether firm size had a moderating effect on the influence of board responsibility on net profit margin of agricultural cooperative societies in Kenya. The findings presented in Table 5 established that firm size had an insignificant positive moderating effect on the relationship between board responsibility and net profit margin of the agricultural cooperative societies (p=0.290, >0.05). These findings contradict those of Ayuba *et al.* (2019), that established that firm size moderated the relationship between board responsibility and financial performance and thus can be considered as new knowledge to the study.

### V. Conclusions And Recommendations

The main objective of this study was to evaluate the influence of board responsibility on the financial performance of agricultural cooperative societies in Kericho County. Board responsibility was proxied by the number of meetings and the attendance rate at board meetings. Financial performance was proxied by NPM. The correlation results established that board responsibility had a significant positive correlation (r=-0.0493; p<0.05) with the net profit margin of agricultural cooperative societies. The regression analysis results established that at a confidence level of 95%, board responsibility had a negative significant (β= -41.3e+07, p-value= 0.000 <0.05 and the t-value=-7.84 >1.96) influence on NPM. The negative effect of board responsibility on NPM indicates that improved board responsibility may be associated with lower profit margins. This suggests a trade-off where enhanced board governance boosts overall return but may reduce profitability.

The study concluded that board responsibility is a key driver in enhancing the financial performance of agricultural cooperative societies. Therefore, agricultural cooperative societies need to enhance and improve oversight of the responsibility of the directors to improve their net profit margins. Since board responsibility was found to have a significant negative correlation with net profit margin, the study recommends that policymakers and cooperative society management place greater emphasis on clarifying and enhancing board responsibilities.

The significant negative correlation between board responsibility and net profit margin suggests that current governance practices could be misaligned with operational goals, which could potentially affect a cooperative society's profitability. Therefore, policies should be developed to refine board responsibilities to support strategic decision-making and operational efficiency without imposing undue constraints. In addition, the management should enhance board responsibility by clearly defining and enforcing the roles and responsibilities of board members and regularly evaluating their performance, which will ensure they are meeting their obligations and contributing to society's success.

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