Gender Diversity and Financial Performance of Sacco's in Siaya County, Kenya

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Abstract: **Majority of the SACCOs in Siaya County are struggling a lot to execute local obligations let alone to apply board diversity due to their limited capability. Weak corporate governance according to various studies has been the root cause of failure of most financial institutions. Diversity of the board can also be at a greater risk to be influenced with other direction with personal agendas. The study generally examined the effect of gender diversity on the financial performance of Siaya County, Kenya. A descriptive design of research was employed. The unit of analysis are the 285 respondents drawn from the 57 SACCOs. Data was collected using questionnaires. The technique on stratified random sampling was made use of which led to the selection of 50% of the board members from each SACCO. Therefore, the sample size comprised of 143 respondents. Collection of data was done using questionnaires which were semi structured. Content validity was used through consulting the supervisor assigned by testing the tool to check whether it measures the intended purpose of the study. Test retest method was employed to ensure reliability of the questionnaires. Quantitative data was analysed using descriptive analysis and utilization of inferential analysis was done in establishing the degree to which variables related which involved analysis in multiple regression. The study found that gender diversity had a positive and significant effect on financial performance. The study concludes that having a high proportion of female board members had a positive effect on financial performance. The study recommends that deposit taking Saccos in Siaya County, Kenya should try to incorporate more female members as it was proved to translate to more returns in terms of Sacco financial performance.**

Keywords: **Gender Diversity, Financial Performance**

I. INTRODUCTION

Savings and Credit Cooperative (SACCO) is formed with the aim of pooling members' savings and as a result offer credit facilities to them (Lari, 2015). According to Wamaitha (2017) additional SACCO objectives entail encouraging members thrift as well as encouraging the members on how to properly their cash and investing effectively. Those who live in urban areas and earn salary have formed their SACCOs, also in rural areas farmers have also formed SACCOs. Those who deal with trading, transportation, jua kali sector have also formed a community based SACCOs. Certainly, a diversified offering of SACCO services and products has contributed to a new definition in Kenyan financial sector. Their main aim is to make savings which has been effectively alleviated poverty and is essential to sustaining the development of the economy (Kenani & Bett, 2018).

The importance of Sacco's cannot be undermined considering their significance in the development of country economic status both in developing and developed countries. Financial performance of Sacco's is therefore crucial to sustainability on which economic security vitally depends on. The major determining factor of SACCO's performance is the management, the board to be particular. They are the decision makers of any institution. The impediment of this notion is board diversity on the basis of age, interest cultural group, experience, expertise, socio- economic status and the board gender difference. If Sacco's lack element of diversity in their organizations, then the institution board will deny the institution robust and harmonized decisions which are reflected in the financial accounts.

Cho, Kim and Mor Barak (2017) provides evidence of social psychology relationship between the demographic similarity and attraction. Hesborn, Onditi and Nyagol (2016) developed a concept on hypothetical lines that divides groups into subgroups. According to him Salient demographic divides groups into subgroups. The other category is Demographic dissimilarity which basically split group into communication subgroups which reduces the interpersonal attraction and creation of conflicts (Sathyamoorthi, Baliyan, Dzimiri& Wally-Dima, 2017). The most commonly experience problem in corporate board is communication breakdown that can occur between the top executive and minority outside directed. These directors from outsides depends on the top directors to provide them with viable information concerning on firms' progress. Diversity of the executives helps the firm to share different management values. Reliance on the executive to share valuable information with the outside directors promotes board effectiveness (Ishengoma & Towo 2016).

The board of a firm may be interested in their own agenda rather than that of the firm. The more advanced problem is when the directors also present the interest from outside. Diversity of the board can also be at a greater risk to be influenced with other direction with personal agendas. This problem is not originating from diversity but from inappropriate alignment with the interest of the shareholders. Focusing on functional background to select directors may have a savvier consequence to firm as the directors may be having their loyalties somewhere else (Mutuku, 2016). Bendickson, Gur and Taylor (2018) provide insight to the relationship between good corporate governance and performance. Persistent poor financial performance of

SACCOs has caused most SACCOs not to achieve their desired objectives of corporations and those of stakeholders.

Bauer, Gunster and Otten (2016) observe that governance for different Countries may vary due to its cultural values, political and social and historical circumstances. In this sense, governance for developed countries and developing countries can vary due to the culture and Economic contexts of individual country. Moreover, according to Bhagat and Black (2018) an effective and good corporate governance cannot be explained by one theory but it is best to combine a variation of theories, addressing not only the social relationships but also emphasize on the rules and legislation and strict enforcement surrounding good governance mechanisms.

SACCO's financial performance is going through drastic changes over recent years. They are beginning to look at their business based on economic value framework. This framework entails the firms trying to calculate the economic values of their firms based on the capital invested and the values of economic earnings which are used to design risk-adjusted return capital (Macharia 2017). Wamaitha (2017) suggested that SACCO's are part of the system that repairs the economic problems. SACCO's offer support to other firms therefore they are essential for the successful operation of other firms. According to Njenga (2018), the most common measures of financial performance are financial efficiency, profitability, solvency, repayment capacity and liquidity. He added that benchmarking can also be significant in measuring performance. He suggested this can be done using past firm's performance.

This is the manner in structuring the board as well as the number of its members (Joseph & Mwangi 2017). Primary duties of the board include: setting the goals of the firm, developing the firms short and long term target of the firm as well as ensuring the operations of the firm comply with the companies Act (Wamaitha 2017). Njenga (2018) suggest that for the board to perform its duties to the full capacity there have to be in place an operational board structure. Mutuku (2016) found out that the functions performed by the board are numerous but board structure is vital as it improves the efficiency with which the board performs its duties through providing diversity in the board which gives it an edge to its competitors

Gender diversity on the other hand is proportion of female members on board. Diversity on gender has acquired drive recently with board required to meet a certain proportion consisting of both genders. This is due to the diversity which it creates in the board improving its efficiency which has a direct link to bank performance (Frijns, Dodd & Cimerova 2016). However, the results revealing its impact are ambiguous. Frequent board meetings are an indication of the activeness of the board. Frequent board meetings indicate close monitoring of the firm's management as well as monitoring of both short and long term goals of the firm. Moreover, this industry is characterized by still completion and high volatility hence frequent board meetings are vital (Kenani & Bett, 2018).

Siaya County boarders Kisumu County, Homabay County, Busia County and Kakamega County. Siaya County has 11 Deposit taking SACCOs operating. The main DT SACCO is the Taraji SACCO which was initially known as Siaya Teachers SACCO. Most of the SACCOs in the County have faced fierce competition from commercial banks and MFIs. Otieno (2015) in his study on SACCOs in Siaya County indicates that DT SACCOs have not established much in the county due to reduced sensitization of the residents and customers. SACCOs have opened branches where some have closed shop after operating for less than a year. The geography of the place is vast and client base is high however the performance of the entities has not improved.

According to CBK report of 2018 key stability indicators show that Sacco Societies have adequate buffers to absorb business risks as measured by capital adequacy, liquidity, capacity to generate earnings and members' confidence (CBK, 2018). Credit risk increased slightly in 2018, however, sustained regulatory interventions for DT Sacco's increased capital by 13.1 percent, which is a sufficient buffer against credit risks and risks associated with adoption of technology to delivery new products and services. Saccos however, faced a number of risks in 2018, mainly; credit, operational and governance. Credit risks associated with new areas of financing such as housing, manufacturing and even trade are emerging. SASRA is working to amend regulatory framework to enable DT-Saccos' provide detailed information on the specific sectors they finance and accompanying risk exposures (SASRA, 2018).

II. STATEMENT OF THE PROBLEM

Gender diversity and the inclusion of more women in boards of directors and top executive management positions have the potential to add value to organizations. The political and economic implications of issues related to gender diversity have become increasingly prominent in many countries, with many African countries taking the lead in terms of promoting gender equality on corporate boards. However, while this trend is a milestone for gender equality, the question arises whether gender equality has any effect on the financial performance of financial institutions. Previous studies in Siaya County on board diversity have mainly been conducted in NGOs and small and medium enterprise's. The effect of weak legal systems on economic activities majorly defines types of board diversity that are effectively applicable across Sub-Saharan Africa (Ruparelia, 2016). In most developing countries, poor governance is progressively quoted as a vital causal factor to poor economic performance (Ongore & Owoko, 2011). Good corporate board structure is clearly needed in Siaya County since most companies die before completing one year of operation (Mutuku, 2016) implying that Sacco's are subjects to the risk of closure. The concept of board diversity is still in its infant stages with no developed systems in terms of governance codes and principles (Chepngeno, 2017).

A study by Rajula (2016) examined the effects of board diversity on financial performance of commercial banks in Kenya and the study clearly proved to be that directors' age, average period of experience, gender and education level has a positive relationship with the banks financial performance. However, the study context was commercial banks while the current study focused on SACCOs. Vafaei, Ahmed and Mather (2015) study examined the relationship between board diversity and financial performance in the top 500 Australian firms and found that the results also show that board diversity is positively associated with financial performance. Wambui (2018) study investigated the influence of board diversity on the financial performance of commercial banks in Kenya and the found that nationality diversity was not significantly related with financial performance of the commercial banks as measured through both ROA and Tobin's Q. The current will used other variables apart from nationality. This study therefore sought to investigate how deposit taking Sacco's financial performance in Siaya County, Kenya was affected by gender diversity.

III. LITERATURE REVIEW

Theoretical Literature Review

Human capital theory was developed by Becker in 1964 and includes a person's education, experience and skills that can be used to add value to an organization. Human capital can be either firm specific or general. According to human capital theory, gender diversity will affect board performance as a result of a diverse and unique human capital. The effect on financial performance can, however, be positive as well as negative and the usefulness of an individual's human capital may be dependent on a firm's internal and external circumstances. This theory does not however prescribe the circumstances that diversity in gender can pose negative effects in the firm.

Shleifer and Vishny (2017) observe that social capital is created when individuals or organizations interact. An example being the knowledge and information communicated in networks of relationships that facilitate instrumental action. According to Lynall, Golden and Hillman (2018) economic actions are both informed, influenced and enabled by the network of social relations. In a relationship network the social actors are interconnected to other social actors in a crisscrossing pattern with varying strengths. A network that is extensive and with many areas unconnected will provide better access to more and diverse information. Demographic similarities among directors will reflect the inter organizational network.

The theory is important because it states that if directors therefore are from different genders, it is more likely that their networks will be different from each other, which will make the firm's total social capital to be high. The board's social capital therefore becomes important to the functioning of the board.

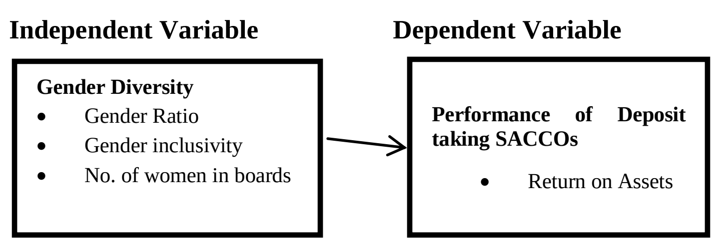
Empirical Literature Review

A study by Joecks, Pull and Vetter (2013) explored how firm performance was influenced by gender diversity in the boardroom. It was indicated that the bank had policies like balanced recruitment, minority groups support, diversity training and identical employments chances. Apart from an employee's education level and ability of performance, there was no any other workforce diversity variable that determined the workers' compensation. Staff diversity was seen to have effect on employee performance at degrees that vary considering both managers and non-managerial bank employees. However, the study used a correlational design which does not reveal which variable influences the other. Descriptive design used in the current study that effectively shows how variables influence each other in order to address the gap left

Low, Roberts, and Whiting, (2015) researched on how performance of firm was affected by board gender diversity. Research shows a degree that is higher in female representation on the board increases an organization financial performance. Discrimination that is positive that engagement of female in the boardroom had a more likelihood of continual existence Malaysian corporate governance. However, the positive effects of gender diversity appear to be diminished in countries with higher female economic participation and empowerment. This may be due to tokenism and suggests that forcing female director appointment or mandating gender quotas can reduce firm performance in countries with strong cultural resistance. The study used secondary data. The current study uses primary data.

Ibrahim and Hanefah, (2016) did a study on how corporate social responsibility in Jordan was affected by board diversity. Content analysis was used to determine CSR disclosure. This study used panel data analysis to investigate the influence of board diversity characteristics on CSR disclosures. The results indicate that different to the findings of the research from advanced countries, a non-significant was found that statistically related to involving the percentage of women on boards and top and level that is medium executive management of Jordanian banks and these banks' financial performance. However, the study used exploratory research design which disallows making inference. The current study used descriptive research design in order to address the gap

Conceptual Framework



The conceptual framework shows the independent variable as the gender diversity which was evaluated in terms of gender ratio, gender inclusivity and the number of women in boards and the dependent variable as financial performance measured in terms of return on assets.

IV. RESEARCH METHODOLOGY

A descriptive design of research was employed. The unit of observation was the 57 deposit taking SACCOs within Siaya County and the unit of analysis was the 5 board members from each SACCO who make up to 285 respondents. Data was collected using questionnaires. The technique on stratified random sampling was made use of which led to the selection of 50% of the board members from each SACCO. Therefore, the sample size comprised of 143 respondents. Collection of data was done using questionnaires which were semi structured. Content validity was used through consulting the supervisor assigned by testing the tool to check whether it measures the intended purpose of the study. Test retest method was employed to ensure reliability of the questionnaires. Quantitative data was analysed using descriptive analysis and utilization of inferential analysis was done in establishing the degree to which variables related which involved analysis in multiple regression.

V. FINDINGS

Questionnaire Return Rate

The questionnaires were distributed to a sample of 143 respondents and the questionnaire return rate is indicated in Table 1

Table 1: Questionnaire Return Rate

Category	Frequency	Percentage
Response	120	83.9
Non Response	23	16.1
Total	**143**	**100**

Source: Research Data (2021)

The results in Table 1 show that 97.5%) were those respondents who returned their questionnaires and those who did not account for 16.1%, according to the findings in Table 4.1. The overall response rate was 83.9%. The researcher found this response rate as adequate and suitable to carry on with the data analysis as recommended by Champion and Sear (2019), who claims that a response rate of 75% or above is sufficient for generalization of results to the target population

Descriptive Analysis Results

The study sought to examine the effect of gender diversity on financial performance of Siaya County, Kenya. The descriptive results are presented in Table 1.

Table 1: Descriptive Results on Gender Diversity

Statement	Mean	Std. Dev
The proportion of both genders in our board members is balanced	3.01	0.910
Inclusion of both Genders in our board composition has improved the transparency level of our board	3.51	0.706
Inclusion of both Genders in our board composition has improved the accountability level of our board	3.69	0.791
Inclusion of both Genders in our board composition has improved the innovation level of our board	2.89	0.718
Mixed gender board has achieved higher returns for our SACCO	3.57	0.811
Mixed gender board has improved the relationship between the board and SACCO management	3.88	0.802
Mixed gender board has improved the relationship with members	3.71	0.688

Source: Research Data (2021)

Inclusion of either gender in boards of management has improved the transparency level of the board (Mean=3.51, Std.Dev=0.706), inclusion of both gender in the board has improved accountability level of the board (Mean=3.69, Std.Dev=0.791), mixed gender board has achieved higher returns for the SACCOs (Mean=3.57, Std.Dev=0.811), mixed gender board has improved the relationship between the board (Mean=3.88, Std.Dev=0.802) and SACCO management and that mixed gender board has improved the relationship with members (Mean=3.71, Std.Dev=0.688). The participants indicated that to a moderate extent the proportion of either gender in the boards is balanced and that inclusion of both gender in the board has improved innovation level (3.01 and 2.89). SACCO boards of management had members of either gender which had contributed to improved transparency, accountability, returns, working relationship, gender balance, innovation and general performance. This indicated that gender diversity in the boards of management has promoted growth of the SACCOs through public appeal, improved service delivery and integration of ideas from gender, promoted women empowerment and contribution to the growth of the SACCO.

These findings are in line with the findings of a study by Joecks, Pull and Vetter (2013) explored how firm performance was influenced by gender diversity in the boardroom and indicated that the bank had policies like balanced recruitment, minority groups support, diversity training and identical employments chances. Apart from an employee’s education level and ability of performance, there was no any other workforce diversity variable that determined the workers’ compensation. The findings are also in line with Low, Roberts, and Whiting, (2015) researched that focused on how performance of firm was affected by board gender diversity and the positive effects of gender diversity appear to be diminished in countries with higher female economic participation and empowerment. This may be due to tokenism and suggests that forcing female director appointment or mandating gender quotas can reduce firm performance in countries with strong cultural resistance.

Regression Analysis

Table 2: Regression Analysis

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.784[a]	.771	.763	1.51314

Source: Research Data (2021)

Table 2 shows a model summary that provides information about the regression line's ability to account for the total variation in the dependent variable. There was a significant correlation among variables (R=0.784). R^2 was 0.763(76.3%) implying a deviation on dependent variable is attributed to gender diversity.

Coefficient of Determination of the Variable

Table 3: Regression Coefficient

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
	(Constant)	0.822	0.701		1.173	.000
	Gender diversity	0.801	.143	.051	5.601	.000

Source: Research Data (2021)

As given in Table 3, the constant value of 0.822 represents Sacco's financial performance in Siaya County when gender diversity is held constant. Further, when gender diversity is increased by one unit, Sacco's financial performance in Siaya County also increases by 0.801 factor.

The equation of regression formed was as follows

Multiple regression model was: $Y= 5.822+ 0.801X_1$

Y = Performance of Deposit Taking SACCOs in Siaya County; X1 = Gender diversity;

The findings further as represented by in Table 3 shows that gender diversity positively and significantly affected Sacco's financial performance in Siaya County as represented by t values ($t=5.601$, $p<0.05$). This finding concurs with Low, Roberts, and Whiting, (2015) who researched on how performance of firm was affected by board gender diversity and established positive effects of gender diversity appear to be diminished in countries with higher female economic participation and empowerment

VI. CONCLUSIONS AND RECOMMENDATIONS

The study concludes that board gender diversity was a significant factor in explaining financial performance of deposit taking Saccos in Siaya County, Kenya. Having a high proportion of male and female board members had a positive effect on financial performance. The implications of these findings are that increasing the ratio of male to female gender in the board is expected to have a positive effect on financial performance of deposit taking Saccos in Siaya County, Kenya.

The study recommends that deposit taking Saccos in Siaya County, Kenya should try to incorporate more women members as it was proved to translate to more returns in terms of Sacco financial performance. It is therefore important that the right mix of both genders to be put in place in order to enhance excellent performance in the deposit taking Saccos in Kenya. The study suggests that further studies should be done that focus on other measures of board diversity. The study was carried out in deposit taking Sacco's in Siaya. Therefore, studies can be done that focus on deposit saccos in other Counties in Kenya.

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