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## Moderating effect of innovation on corporate governance and performance of deposit taking sacco in Kenya

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### Abstract

The study was conducted behind the contribution the Kenyan Sacco Sub Sector has on financial access to the Kenyan population. In midst of this remarkable contribution to the economy, the sub sector is facing competition mainly due to advancement of technology with some Saccos being riddled with poor governance issues. Hence the basis of the study was to investigate the place of innovation and governance as predictors of improved performance. The study objective was to determine the moderating effect of Innovation on the relationship between the dimensions of corporate governance and performance of Deposit Taking SACCOs in Kenya. The research hypothesis was there is no significant moderating effect of innovation on the relationship between dimensions of corporate governance and performance of deposit taking SACCOs in Kenya. The study was based on the domain of corporate governance and anchored on the Resource Dependence Theory, Agency Theory, Stewardship Theory, Upper Echelons Theory and Dynamic Capabilities Theory. Philosophical orientation of the study was pragmatic, with both descriptive cross-sectional survey and correlational research designs adopted. A sample size of 108 licensed Deposit Taking Saccos in Kenya was drawn from a target population of 150 using both stratified and random sampling. Semi structured questionnaire was developed, piloted, and administered to collect primary data from Chief Executive Officers, Board members, Managers and Sacco employees with a return rate of 97%. Secondary data collection sheet was used to collect secondary data from published annual financial reports from the Sacco regulator. The tests of validity and reliability, basic assumptions of regression were conducted. Descriptive statistics, Pearson's correlation and inferential statistics were used to analyse data, which was presented in form of frequencies and tables. The findings suggest that the overall correlation coefficient was 0.538 with the p-values ( $0.000 < 0.05$ ) implying that there is a significant moderating effect of Innovation on the relationship between dimensions of corporate governance and performance of deposit taking SACCOs in Kenya. This leads to rejection of the null hypothesis; that Innovation does not significantly moderate the relationships between corporate governance and performance. Further, moderating effect of Innovation predicted up to 36.3% of the variance in performance, which was statistically significant. The study concluded that dimensions of corporate governance alone may not ensure the desired performance, however with organisations implementing innovative measures, improved performance can be achieved. Study recommendations include compliance with existing corporate governance practices, with the industry regulators providing the required oversight and investment in innovation to remain competitive. Limitations of the study included contingencies, choice of study variables and measurement scale. Areas for further studies suggested are introduction of different moderating variables on the relationship between dimensions of corporate governance and performance in the Sacco sub sector and other industries to corroborate these findings and focus on different dimensions of corporate governance.

**Keywords:** corporate governance, innovation, performance, deposit taking sacco in Kenya

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### Introduction

#### 1. Background of the Study

The development of cooperative movement is traced back in Europe in the 19th century, primarily in Britain and France. Fenwick Weavers' Society was the first documented consumer cooperative founded in 1769 in Fenwick, East Ayrshire. The Credit Union was invented in South Germany in 1846 at the time of agricultural crisis and continuous heavy drought in Europe. In Italy, Luigi Luzzatti established saving and credit cooperatives, which combined the principles established by his two German predecessors. In Africa, the first SACCO Society was introduced in Jipara, a small town the upper west town of Ghana by Roman Catholic priest, Father John McNulty from Ireland. In Kenya, the European settlers in the Kipkelion, Kericho County, initiated the first cooperative in 1908; Lubwa Farmers' Cooperative Society. It was registered under the Companies Ordinance (Wasike, 2012) <sup>[39]</sup> and it was to provide dairy and agricultural support for the white settlers (Kobia, 2011) <sup>[17]</sup>.

The first society to be registered under the new Act was the Kenya Farmers Association, which started as a company in 1923.

The cooperative movement was seen as the means to make people get involved in modern economic development within a short period of time (Mudibo, 2005) <sup>[23]</sup>. In Kenya, the SACCO industry is part of the cooperative sector; SACCOs differ from other Cooperatives as they specialize in financial intermediation, which necessitates adherence to Prudential Financial standards and supervisory oversight; require access to liquidity mechanisms and require to maintain capital base from retained earnings from operations (Njuguna, 2011) <sup>[26]</sup>. The Kenyan SACCOs act as competitive alternative financial service providers to Kenyans. The SACCO Sub Sector can be described as two-tiered given the range of financial services to members and regulatory regime. Credit provision for household economies, mobilization of savings, deepening of financial access and inclusion further cements their role in serving the unbanked population (SASRA, 2018) <sup>[33]</sup>. Traditionally, the Kenyan Saccos as cooperative societies are member-owned financial institutions which are formed or founded along certain common bond characteristics such as occupations, profession, industry, geographical area of operations among others (SASRA, 2019).

In 2015, SACCO Societies Regulatory Authority (SASRA) publicized corporate governance guidelines for Deposit-Taking Sacco Societies (DTSs). It is notable that these corporate governance practices mainly deal with the issues of the board such as board composition, role of audit committee, separation of the role of Chief Executive Officer (CEO) and the chairperson of the board. Just like other industries in Kenya or globally, the development of corporate governance codes was initiated to address the collapse of modern corporations. Corporate governance guidelines facilitate and monitor effective management of an organization, including mechanisms to ensure legal compliance and prevent improper or unlawful behavior (Meredith and Clough, 2005) <sup>[22]</sup>. Embracing corporate governance practice creates a corporate culture of consciousness, transparency, and openness (Gupta and Shurma, 2014) <sup>[9]</sup> and attracts investments. Amidst this regulatory development and fast growth of SACCOs, the business environment remains ever dynamic, complex, and competitive, with multi-relationship with stakeholders. Saccos are finding their businesses under threat. These developments raise a question whether good governed Saccos can compete effectively and register improved performance.

The culprits are members of a new wave of digital upstarts that capitalize on changes in technology, customer behavior, and the availability of data to create innovative, customer-friendly alternatives to the services incumbents offer. The advancement and use of mobile technology and the changing environment has also brought disruptive new competitors within the Sacco Sub-sector in Kenya. These are the drivers of development that were envisaged by Schumpeter at the beginning of the 20th century (Atalaya, Anafarta and Sarvanc, 2013). With the increasing competition, innovation can be very important for Saccos to achieve better performance and better results eventually. D'Emidio, Dorton and Duncan (2015) claims that to seize the opportunities, Saccos must learn to tap the potential for innovation made possible by four evolving trends: higher customer expectations, the rise of the mobile internet, big data and advanced analytics and the internet of things. Porter (1998) contend that firms must increasingly compete, to defeat competition, win new customers (Hana, 2013) <sup>[13]</sup>, and retain the existing customers. In the quest towards survival and growth, Innovation is a critical survival ingredient of the Saccos. In response to aforementioned-environmental changes, Saccos are enhancing their innovative potential by developing new capabilities that will help them to achieve higher performance (Montes *et al.*, 2004). Innovation involves change and the high technology which is the most powerful tool for strengthening competitiveness. Within the Business organizational context, innovation may be linked to positive changes in efficiency, productivity, quality, competitiveness, and market share. According to Auka and Mwangi (2013) <sup>[3]</sup> there is need for Sacco management to be more innovative to make their firms more competitive in the face of the cutthroat competition.

## 2. Study Objective

To determine the moderating effect of Innovation on the relationship between corporate governance and performance of Deposit Taking SACCOs in Kenya.

## 3. Hypotheses for the Study

There is no significant moderating effect of innovation on the relationship between corporate governance and Performance of Deposit Taking SACCOs in Kenya.

## Literature Review

### 1. Theoretical Framework

This study was anchored on Resource Dependence Theory (Aldrich and Pfeffer, 1976; Pfeffer and Salancik, 1978) <sup>[2, 30]</sup>, Agency Theory (Berle and Means, 1932) <sup>[5]</sup>, Upper Echelons Theory (Hambrick and Mason, 1984) <sup>[12]</sup> and Dynamic Capabilities Theory (Teece, Pisano and Shuen, 1997) <sup>[38]</sup>.

Resource Dependence Theory was propounded by Pfeffer and Salancik in the 1970s, with their publication of *The External Control of Organizations: A Resource Dependence Perspective* in 1978. Key theoretical postulations that firms can enact to minimize environmental dependences: mergers/vertical integration, joint ventures and other inter-organizational relationships, boards of directors, political action, and executive succession (Hillman, Withers and Collins, 2009) <sup>[14]</sup>. This study explored the role and contribution of board members as a critical resource that organization must have in place for its survival as postulated by Resource

Dependence Theory. Organisations must acquire and maintain resources for their survival (Pfeffer and Salancik, 2003, Abdullah and Valentine, 2009) <sup>[31, 1]</sup>. Central to this theory is the role of boards of directors and the perceived benefits they bring to the organisation upon their appointments. Critical is how the board composition enhance organisational performance. Boards of directors provide expertise, skills, information, and potential linkage with environment for firms (Ayuso and Argandona, 2007) <sup>[4]</sup>. Boards acts as a link with the external environment in supporting the management in the achievement of organizational goals. Boards supports and supplement the experience provided by top management teams (Kor and Misangyi, 2008) <sup>[19]</sup>. Hence this theory anchors investigation on the question of diversity among the board members as an important dimension of corporate governance.

Agency Theory was propounded by Stephen Ross and Barry Mitnick in 1973. The theoretical postulates are that within the modern corporation, managerial actions depart from those required to maximize shareholder returns (Berle and Means, 1932) <sup>[5]</sup>. Specifically, the basic agency structure of a principal (owner) and an agent (manager) engaged in cooperative behaviour (Jensen and Meckling 1976; Eisenhardt, 1989) <sup>[15, 8]</sup>, but have differing goals and differing attitudes toward risk (Eisenhardt, 1989) <sup>[8]</sup>. Eisenhardt (1989) <sup>[8]</sup> suggested two agency problems arises when the desires or goals of the principal and agent conflict and it is difficult or expensive for the principal to verify what the agent is doing. The focus of Agency theory is specifying mechanism that resolve the problems that can occur in agency relationships. One such mechanism is imposition of internal controls through constitution of audit committee. In this study, Agency theory postulations provides a basis for conceptualization of audit committee as an important dimension of corporate governance.

Upper Echelons Theory was propounded by Hambrick and Mason (1984) <sup>[12]</sup> in their classic paper, that associated managerial characteristics with organizational outcomes. The Upper Echelons Theory is premised on that executives' experiences, values, and personalities greatly influence their interpretations of the situations they face and, in turn, affect their choices (Hambrick, 2007) <sup>[11]</sup>. The understanding being that demographic characteristics are associated with the many cognitive bases, values, and perceptions that influence the decision making of managers. This is important because organisations are becoming increasingly complex in terms of the diversity of Top Management Team and the extent to which they shape performance outcomes is important (Juravich, 2012). The management decisions and strategic choices made could be dependent on top executives' cognitive base or orientation (Hambrick, 2005) <sup>[10]</sup>. Management executives visualize the business environment through lenses created by their personal histories, experiences, knowledge, values, and other biases (Hambrick, 2005) <sup>[10]</sup>. Hence, the Upper Echelons Theory lays foundation for the assessment of the select individual managerial characteristics as they relate to decision-making and performance (Cannella, Finklestein and Hambrick, 2009) <sup>[6]</sup>. In this study, Upper Echelons Theory postulations aid in understanding the executive cognitions, values, and perceptions and their influence on the process of strategic choice and resultant performance outcomes.

Dynamic Capabilities Theory was propounded by Schumpeter (1934) <sup>[35]</sup>. He viewed Innovation-based competition where competitive advantage is based on the creative destruction of existing resources and novel recombination into new operational capabilities (Pavlou and El Sawy, 2011) <sup>[29]</sup>. Organisations are operating in ever dynamic business environment. It is imperative for the organisations to respond timely to attain a sustainable competitive advantage in certain conditional cases. This is possible if the firms have a better understanding of market dynamics and focuses on the firm's ability to integrate, build and reconfigure internal and external competencies to address rapidly changing environments (Teece *et al.*, 1994; Teece, 2007) <sup>[37, 36]</sup>. The study lays an emphasis in the resource configurations that create value and not on dynamic capabilities that can be duplicated. This is feasible by organisations embracing innovation. Innovative organisations create value and sustain competitive advantage. Hence, Dynamic Capabilities Theory postulations are crucial foundations for this study as they demonstrate how Saccos are able to successfully integrate, reconfigure and redeploy knowledge resources, from one innovative measure to another and as a result obtain greater performance.

## 2. Empirical Review

In 2018, Macharia and Tirimba investigated the effect of product innovation factors on financial performance of 30 deposit taking saccos operating between 2013 and 2017, in Nairobi City County, Kenya. Descriptive research design and census approach were adopted. Purposive sampling was used to identify 90 respondents. Both primary and secondary data were collected through semi-structured questionnaires and from published financial statements. Their study findings indicate that branch network, product range, product location and product cost had a significant direct relationship to financial performance of deposit taking saccos in Nairobi City County, Kenya. While this study investigated the moderating effect of innovation in the context of Deposit Taking Sacco in Kenya, Macharia and Tirimba was focused on innovation as an independent variable in the context of Deposit Taking Sacco in Nairobi County, Kenya.

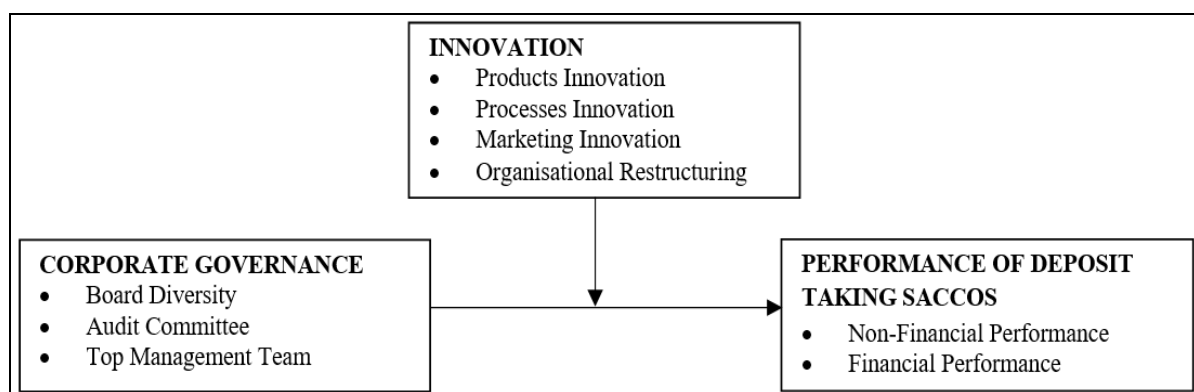
Guided by the philosophical orientation of positivism, Odera, Egessa and Oseno (2019) <sup>[27]</sup> investigated the effect of innovation on performance of Deposit Taking SACCO's in Kenya. The study was anchored on Transformational Leadership Theory. Descriptive correlational research design and census technique were employed. Both close ended questionnaires and an interview schedule were used to collect Primary data targeting 126 senior managers and 42 CEOs. Purposive and simple random sampling was employed to select the CEO's and senior managers. Validity and reliability tests, descriptive and inferential statistics, and simple linear regression were used. The study confirmed that innovation had a positive and significant effect on the

performance of Deposit Taking SACCO's in Kenya. Specifically, product, market and technological innovation collectively were to have statistically significant relationship with performance. While this study investigated the moderating effect of innovation, Odero *et al.*, (2019) <sup>[27]</sup> focused on innovation as an independent variable. Ebrahim, Abdullah and Faudziah (2014) <sup>[7]</sup> examined the association between corporate governance practice and firm performance of non-financial companies listed in Muscat Security Market through 2011 and 2012. The two important committees of corporate governance practice namely, audit committee characteristics and executive committee characteristics were investigated. The study findings revealed a positive but not significant relationship between audit committee size, audit committee independence and executive committee size and firm performance. The association between audit committee meeting, executive committee independence and executive committee meeting and firm performance was found to be negative but not significant. The study recommended further examination of the effect of audit committee, executive committee, board director's characteristics on performance. Further, they recommended future research on moderating and mediating effects of some variables such as board diversity. The study's data was limited to two years' period. This study intends to bridge the gap by focussing on the moderated effects of innovation on the relationship between corporate governance and performance of DT Saccos in Kenya.

Munyasia (2016) <sup>[24]</sup> adopted descriptive research design to assess the effect of corporate governance on performance of 6 savings and credit cooperative societies in Kakamega County, Kenya. The population of the study was 114 respondents comprising of heads of departments, CEOs, Board of Directors and Sacco members. Questionnaire response rate of 100% was achieved for all respondents to whom questionnaires were administered to or interviews conducted. Data was analysed using descriptive statistics. Munyasia (2016) <sup>[24]</sup> found that management assessment of Sacco governance has a significant effect on Sacco performance. The Sacco performance measures of this study were of non-financial nature while the current study uses both financial and non-financial measures.

### 3. Conceptual Framework

Figure 1 shows the conceptual framework of the moderated effect of innovation on dimensions of corporate governance and performance of Deposit Taking Saccos in Kenya.



**Fig 1:** Conceptual Framework

### Methodology

The philosophical orientation of this research study was pragmatic paradigm due to the mixed approach adopted. Descriptive cross-sectional survey adopted because it enabled data collection from a relatively large number of cases with individual characteristics at a time related to two or more variables (Kothari, 2004). While correlational research design was used to test the study hypothesis. 150 DTS were eligible drawn from the Target Population of 175 DTS licensed undertake deposit-taking Sacco business; 3 licensed DTSs had their licenses revoked due to failure to address non-compliance issues while the remaining 22 DTSs failed to attain the licensing requirements as per the Sacco Societies Act. Hence, the study adopted a census approach of all the licensed DTS. Hyper-geometric distribution was used in accordance with Krejcie and Morgan (1970), to determine a sample size of 108 using both random and stratified sampling. Semi structured questionnaire was developed, piloted to 11 respondents from DTS representing 10% of 108 of the actual study sample size who were identified through random sample and later administered to 108 respondents who comprised of Chief Executive Officers, Board members and managers. To supplement the primary data, secondary data collection sheet was used to collect secondary data drawn from SASRA annual supervision reports. Descriptive, correlation and inferential statistics were used to analyse data, with the results of the statistical analysis presented using tables and frequencies.

### Findings and Discussion

#### 1. Descriptive Analysis

The composite means and composite standard deviation of Board diversity, Audit Committee, Top management Team and Innovation are presented in Table 1.

**Table 1:** Descriptive analysis of innovation, dimensions of corporate governance and performance

Variable	N	Composite Mean	Composite Standard Deviation
Boad diversity	105	3.92	1.198
Audit committee	105	3.53	1.018
Top management Team	105	3.89	0.938
Innovation	105	4.06	0.839
Overall Composite mean & standard deviation		3.85	0.998

Result from Table 1 shows that the line composite mean for Board diversity was 3.92, Audit Committee was 3.53, and Top Management Team was 3.89, while innovation had 4.06. The overall composite mean of 3.85 with a standard deviation of 0.998 indicates that the respondents agreed that Innovation moderate the relationship between Corporate Governance attributes and Performance of Deposit Taking SACCOs in Kenya.

## 2. Correlation Analysis

Pearson product moment correlation coefficient was used to establish whether Innovation moderates the relationship between dimensions of Corporate Governance and Performance of deposit taking SACCOs in Kenya. The correlation results are presented in Table 2.

**Table 2:** Correlation analysis of innovation, dimensions of corporate governance and performance

Corporate Governance (Dimensions)		Performance of deposit taking SACCOs
Board Diversity	Pearson correlation	0.479*
	sig. (2-tailed)	0.000
	n	105
Audit Committee	Pearson correlation	0.527*
	sig. (2-tailed)	0.000
	n	105
Top Management Team	Pearson correlation	0.572*
	sig. (2-tailed)	0.000
	n	105
Innovation	Pearson correlation	0.575*
	sig. (2-tailed)	0.000
	n	105
Overall Correlation	Pearson correlation	0.538
	sig. (2-tailed)	0.000
	n	105

\*Correlation significant at 0.05 level (2-tailed)

The correlation output Table 2 shows that all the dimensions of Corporate Governance upon moderation effect of Innovation were significantly related ( $P$ -values<0.05) against Performance (Board Diversity;  $r=0.479$ ;  $p$ -values=0.000<0.05), Audit Committee ( $r=0.527$ ;  $p$ -value=0.000<0.05), Top Management Team ( $r=0.572$ ;  $p$ -values=0.000<0.05), and Innovation ( $r=0.575$ ;  $p$ -values=0.000<0.05). The overall correlation was found to be 0.538 with the  $p$ -values (0.000<0.05) implying that there is a significant moderating influence of Innovation on the relationship between dimensions of corporate governance and performance of deposit taking SACCOs in Kenya, leading to rejection of the null hypothesis;  $H_0$ : that Innovation does not significantly moderate the relationships between corporate governance and performance of deposit taking SACCOs in Kenya. The study findings support the finding by Ombaka, Machuki, Awino and Wainaina (2015) [28]. Ombaka, *et al.* (2015) [28] found that innovation has intervening effects in enabling firms to succeed in the marketplace, their study focused on Performance of Insurance Companies in Kenya.

## 3. Regression Analysis

Multiple linear regression was adopted to investigate how Innovative moderates the relationships between dimensions of Corporate Governance and Performance of deposit taking SACCOs in Kenya.

### 3.1 Model Summary

The model summary results are presented in Table 3.

**Table 3:** Model summary of moderating effect of innovation on corporate governance and performance Model Summary

Model	R	R <sup>2</sup>	Adj. R	Se	R <sup>2</sup> Change	F- Change	df1 df2	Sig.
1	0.240	0.057	0.029	0.554	0.057	2.049	3,101	0.112
2	0.603	0.363	0.338	0.458	0.306	12.216	4,100	0.000

Model 1: Predictors: (Constant), Corporate Governance

Model 2: Predictors: (Constant), Corporate Governance and Innovation

Results from Table 3 suggest that there is a positive multiple correlation ( $R=0.603$ ) between moderating influence of Innovation on the relationships between Corporate Governance and Performance of deposit taking SACCOs in Kenya. Model 1 without the moderating influence of Innovation term predicted up to 5.7 %; whereas model 2 with moderating effect of Innovation term predicted up to 36.3% of the variance in Performance of deposit taking SACCOs in Kenya which was statistically significant ( $p\text{-value}=0.000<0.05$ ). The  $R^2$  change in model 2 is 0.306 showing an additional effect of 30.6% to the model due to the moderating influence of Innovation which was statistically significant ( $p\text{-value}=0.000<0.05$ ). This implies that in Model 2 the moderation effect of Innovation can explain upto 36.3% while the remaining 63.7% is explained by the other factors outside this model.

### 3.2 Anova

The study sought to find out whether the regression model is best fit for predicting Performance of deposit taking SACCOs in Kenya. Table 4 presents ANOVA results.

**Table 4:** An ANOVA of moderating effect of innovation on corporate governance and performance

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	11.949	4	2.987	14.265	0.000 <sup>b</sup>
	Residual	20.941	100	0.209		
	Total	32.890	104			

a. Dependent Variable: Performance of deposit taking SACCOs

b. Predictors: (Constant), Corporate Governance

Table 4 shows that the ANOVA results indicated that (F-statistics (4,100) =14.265 is significant given that the  $P\text{-value}$   $0.000<0.05$  which implies that the regression model significantly predicts Performance of deposit taking SACCOs in Kenya.

### 3.3 Regression Coefficients

The study sought to find out whether there was moderating effect of Innovation on the dimensions of corporate governance and performance of deposit taking SACCOs. The results are presented in Table 5.

**Table 5:** Regression coefficients of moderating effect of innovation on corporate governance and performance

Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	5.486	0.547		10.035	0.000
	Board diversity	0.258	0.114	0.329	2.266	0.024
	Audit committee	0.405	0.120	0.508	3.378	0.001
	Top management team	0.655	0.129	0.822	5.067	0.000
	Innovation	0.567	0.127	0.768	4.460	0.000

a. dependent variable: Performance of deposit taking SACCOs

Result from Table 5 shows that; the predicted value of performance when all other variables are 0 is 5.486, value of test statistics:  $t= 10.035$ ;  $p\text{-value} =0.000$ ; the test of  $\beta_1=0.258$ , value of test statistics:  $t= 2.266$ ;  $p\text{-value} =0.024$  (coefficient of Board diversity) statistics revealed that there was sufficient evidence that board diversity was linearly related to performance of deposit taking SACCOs in Kenya. The test of  $\beta_2=0.405$ , value of test statistics:  $t= 3.378$ ;  $p\text{-value} =0.001$  (coefficient of Audit committee) statistics revealed that there was sufficient evidence that Audit committee characteristics was linearly related to Performance of deposit taking SACCOs. The test of  $\beta_3=0.655$ , value of test statistics:  $t=5.067$ ;  $p\text{-value} =0.000$  (coefficient of Top Management Team) statistics revealed that there was sufficient evidence that Top Management Team was linearly related to Performance of deposit taking SACCOs. Finally, the test of  $\beta_4=0.567$ , value of test statistics:  $t=4.460$ ;  $p\text{-value} =0.000$  (coefficient of Innovation) statistics revealed that there was sufficient evidence that Innovation was linearly related to Performance of deposit taking SACCOs. Hence, the multiple linear regression model was derived as follows:

$$Y = 5.486 + 0.258X_1*Inn. + 0.405X_2*Inn + 0.655X_3*Inn. + 0.567Inn.$$

Whereas

Y - Performance of deposit taking SACCOs in Kenya

$X_1^*$  - Board diversity moderated with Innovation

$X_2^*$  - Audit committee moderated with Innovation

$X_3^*$  - Top management team moderated with Innovation

Inn - moderator (Innovation)

The model shows that in case of Board diversity, the coefficient (parameter estimate) is .258, so, for every unit increase in board diversity, a .258 unit increase in performance is predicted, holding all other variables constant. Or, for every increase of one point on the board diversity, the performance of Deposit Taking Saccos is predicted to be higher by .258. The variable board diversity was statistically significant because the *p*-value is less than .05 (*p*-value =0.000). Audit committee, Top management team and Innovation with the respective coefficients are 0.405, 0.655 and 0.567, implies that for every unit increase in Audit committee, Top management team and Innovation, a 0.405, 0.655 and 0.567 unit increase in performance is predicted, holding all other variables constant. The variables Audit committee, Top management team and Innovation were statistically significant because their respective *p*-values were less than .05 (*p*-value = 0.001, *p*-value = 0.000 and *p*-value = 0.000). The study findings validate an explanatory study by Ndesaulwa and Kikula (2016) who had recommended further empirical investigation of influence of innovation on performance. Study by Jianzhong, Kumchol, Fu, Paeksan, Jonggun and Cholho (2019) had recommended for introduction of moderator variables on the corporate governance studies.

### Conclusion

The study sought to determine the moderating effect of Innovation on the relationship between select dimensions of corporate governance and performance of Deposit Taking SACCOs in Kenya. Results revealed that there was a statistically significant moderation effect of innovation on relationship between the select dimensions of Corporate Governance and Performance of Deposit Taking SACCOs. The null hypothesis was rejected, and alternative hypothesis was accepted. Without the moderation, Innovation term predicted up to 5.7 %; whereas with moderating effect of Innovation term predicted up to 36.3% of the variance in Performance. This implies that Innovation can explain up to 36.3% while the remaining 63.7% is explained by the other factors outside this model. The general conclusion is that corporate governance alone cannot influence performance, and innovation is a better predictor of performance. Thus, study findings revealed that innovation (depicted as resources) statistically significantly influences the relationship between corporate governance and performance of Deposit Taking Saccos.

### Recommendation

The study recommends that the board leadership should invest in Research and Development (R&D) to spur the innovation process. Increased funding to R&D activities is essentially an investment in technology and future capabilities which is transformed into new products, processes, and services.

### Areas for Further Research

Future studies should focus on other moderating effects for instance financial regulation, institutional ownership, shareholders communication policy and disclosure among others, need to be investigated with respect to other dimensions of corporate governance and performance in different contexts.

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