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# Effect of Risk Management on Corporate Governance in Savings and Credit Co-Operative Societies in Nairobi County- Kenya

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**Abstract**

*Corporate governance an integral part of the firms in both the public and the private sectors. Saccos need to improve their corporate governance in order to compete globally. The purpose of this study was to establish the effect of risk management on corporate governance in Sacco's in Nairobi County. The study was guided by the credit risk theory. This study adopted descriptive research design. The study targeted 45 licensed SACCOS in Nairobi County with a population of 180 respondents who worked for 45 licensed SACCOS by SASRA in Nairobi County. The sample size for the study was 124 respondents. Purposive technique and simple random sampling was used to select a sample size that represented all employees in filling questionnaires. In order to establish the validity and reliability of the instruments, a pilot study was carried out in Eldoret town. Data was analysed using descriptive and inferential statistics. The study findings indicated that there was a statistical significant relationship between risk management and corporate governance in Sacco's in Nairobi County (t=2.226, P<0.05). The study recommended that the SACCOs should adopt risk management and effectively used to identify risk exposure in order to strengthen corporate governance. The policy makers should ensure that risk management is incorporated in all management decisions being taken to enhance corporate governance.*

## 1.0 Introduction

Corporate governance is a system or set of mechanisms by which an organization is directed and controlled in order to reach its mission and objectives Labie and Mersland (2011). Corporate governance describes the rules, laws, and/or processes by which organizations are operated, regulated, and controlled. Corporate governance, encompasses authority, accountability, stewardship, leadership, direction and control in organizations. According to Bhagat and Black (2002), good corporate governance acts as a shield for organizations against vulnerability occasioned by future financial distress. This concurs with Thomsen (2008) assertion that good governance can improve the performance of a Sacco and assure its long term survival.

Corporate governance has been reflected upon since the beginnings of the modern corporation (Kim and Nofsinger, 2007) it certainly has received increased attention and scrutiny over the last two decades. In this period, corporate governance issues have become important not only in the academic literature, but also in public policy debates. Corporate governance issues are in general receiving greater attention as a result of the increasing recognition that a firm's corporate governance affects both its economic performance and its ability to access long-term, low investment capital (Mordelet, 2009).

There are a wide range of models of corporate administration around the globe. These vary as per the assortment of private enterprise in which they are inserted. The Anglo-American model has a tendency to underscore the interests of investors. The organized or Multi-partner Model related with Continental Europe and Japan likewise perceives the interests of specialists, directors, providers, clients, and the group. A related qualification is between advertise orientated and organize orientated models of corporate administration (Douma and shreuda, 2013).

In their examination, determinants of the corporate administration of Korean firms, Lee and Park (2005) made the accompanying their targets: possession and corporate administration; business structure and corporate administration; firm size and corporate administration, and; other budgetary attributes and corporate administration. This outcome is conceivably because of the way that they have a tendency to accept an administrative part and a checking part as square investors. Normally, they would appreciate the private advantage of control and dislike being checked or tested by outside financial specialists in the matter of administration. It recommended a requirement for administrative intercession by experts with respect to the issue of setting up the corporate administration of open firms, and furthermore a requirement for a dynamic market for control as a supplement to the inside administration component (Lee and Park, 2005).

In South Africa for example Government report on SACCOs of 2011 states that , bad corporate governance negates not only negates the financial performance of cooperative movements but can also occasion macro-economic crises as was witnessed in East Asia in late 1990's . Brown and Caylor (2004) asserted that, the global economic crisis and relatively poor performance of the corporate sector in sub-Saharan Africa necessitated the debate on corporate governance in light of economic development. One of the main topics of corporate governance is establishing an audit committee board and the independence of the auditors. The foregoing ensures integrity of financial reporting (Corporate Governance Guidelines, 2002).

In Kenya, cooperative societies create an important part of the economy. Actually, the Vision 2030 of Kenya recognizes SACCOs as a prime mover in financial resource mobilization to create a vibrant and globally competitive financial sector in Kenya. SACCOs are led democratically and are designed to meet the social and the economic needs of their members. SACCOs operate across all sectors of the economy and it has been estimated that cooperative societies in Kenya, provide livelihood to 63% of Kenyans both directly and indirectly. The financial sector had mobilized estimated domestic savings amounting to Kshs. 150 billion by 2006 and the sector continues to grow at 20% per annum while at the same time, cooperative institutions contribute to the direct employment of over 250,000 people and indirectly through establishment of linkages between firms, farms, markets and through provision of collective and individual investments (Ministry of cooperative development and marketing, 2006)

As at 2016 there were 5,122 registered SACCOs in Kenya according to the Ministry of Cooperative Development and Marketing (2016); All SACCOs operate either FOSA or BOSA and have managed to pull together more than Kshs.200 billion which translates to about a third of the entire national savings. Almost an equal amount of money constitutes the loan portfolio. The foregoing manifests the monumental role played by SACCOs in Kenya's financial sector.

Muturi (2011) opinioned that, a well-functioning corporate governance system enables SACCOs in Kenya to attract investors, and reinforce the basis for their performance. This agrees with the argument that good governance generates goodwill and confidence amongst investors (Claessens et al., 2002). It is posited that, in Kenya corporate governance in SACCOs has not been effectively regulated (Wasike, 2012).

**Statement of the Problem**

National economies have benefitted from well governed Co-operatives. Corporate governance in SACCOs would lead to the realization of objectives of SACCO movement which is creation of wealth for sustained economic growth and development (Anyango, 2014). However, despite the great potential of SACCOs as agents of national development in the country, they have performed poorly. The poor performance is attributed in a nutshell to poor auditing of the corporate governance processes of the bodies entrusted with the responsibility of governing the SACCOs. There is needed to get the sector back to sustainable prosperity through role SACCOs plays in the economy (Anyango, 2014).

The fundamental role played by SACCOs in the socio-economic development of developing countries and more specifically in Kenya cannot be understated. The fact that approximately 30 per cent of savings in Kenya are handled by these financial institutions (Ministry of Co-operative development and marketing, 2010) underscores the importance of SACCOs to the Kenyan population. Therefore the functions of SACCOs should always be monitored in order to improve its performance and in turns improves socio-economic development. However, there is poor auditing of the corporate governance processes SACCOs which leads it's to poor performance in Kenya.

Risk management play a vital role in corporate governance by monitoring decisions and processes. Despite of presence of Corporate Governance guidelines (2002) which recognize the role played by the IAF and give best practices financial institutions can adopt in regards to setting up an audit function majority of Sacco's have follow. Corporate governance emphasize on establishing an Audit committee board and the independence of the auditors. The foregoing ensures integrity of financial reporting (Corporate Governance Guidelines, 2002). SASRA on the other hand requires SACCOs to appoint an internal auditor qualified under Accountant Act, and also have an audit committee (SACCO Societies Act 2008).

To this effect, it is presumed that risk management influences leadership and governance of entities such as SACCOs. Needless to say, it's fundamental to establish the effect of internal audit on corporate governance in SACCOs. Therefore, this study sought to fill this gap by looking at the effect of risk management on corporate governance in SACCOS in Nairobi County.

**Objective of the Study**

The purpose of the study was to determine the effect of risk management on corporate governance in Sacco's in Nairobi County.

**Research Hypothesis**

**$H_{O1}$:** There is no significant effect of risk management on corporate governance in Sacco's in Nairobi County

## 2.0 Theory and Hypothesis Development

### Credit Risk Theory

Credit risk theory was developed by Cantor and Frank in 1996. The theory posits that the credit risk approach enables a firm to integrate credit risk across its entire organization, and provides a statement of value-at-risk due to credit caused by upgrades, downgrades, and defaults. Credit risk theory is important to all firms that are prone to credit risk in the line of their business activities. The theory is relevant to the study as a firm should come up with a method to measure credit risk through a broad range of instruments which are traditional loans, fixed income instruments, letters of credits, commercial contracts including trade credits and receivables, forwards, swaps and other derivatives (Padilla & Pagano, 2000).

According to Allen and Powell (2009) credit risk statistical concepts like probability, means, and standard deviation, correlation, and concentrations came up with three objectives ,the objectives are to develop a Value at Risk (VAR) framework applied by all the institutions worldwide carrying the credit risks in line with their businesses, develop a portfolio view showing the credit event correlation which can show the costs of concentrations and the importance of diversification in a mark to market framework and to use it in making investment decisions and risk mitigating actions that is determining the risk based credit limits across the portfolio, and rational risk based capital allocations. Firms should have a combined credit risk management system for evaluating portfolio risk as a result of changes in debt value caused by changes in obligor credit quality (Rajan & Winton, 1995). The model contains the changes in value as a result of possible default events, upgrades and downgrades in credit quality, due to the value of a specific credit varying with the corresponding credit quality. In the case of default a recovery rate is taken as the portfolio value (Pagano & Jappelli, 1993). Critics of the theory argue that the parameters of determining credibility of are dynamic and sometimes specific to a particular organization and so it is not good practice to provide standard parameters without cognizant of the dynamics situations each table banking group faces. This theory is applicable to this study. The application of this theory is that table Saccos should consider the ability of repayment by a borrower before issuing loan.

### Risk Management

Barasa (2015) in his examination inspected measurable investigation of the part of inner review in advancing great administration in broad daylight establishments in Kenya. The principle target of this investigation was to discover how the Risk Management, Control Process and Governance Process, which are elements of inward inspecting are being perceived today at abnormal state in numerous associations, particularly openly Sectors, when very much organized and given the expected order to perform, enhances execution and fills in as profitable givers in Promoting great administration in its capacities which are responsibility, straightforwardness, viability and proficiency and responsiveness in general society establishments in Kenya.

Sarens and Christopher (2010) explored the association between corporate governance guidelines, risk management and internal control practices. The purpose of this paper was to investigate whether the weaker focus on risk management and internal control within the Belgian corporate governance guidelines is associated with less developed risk management and internal control systems within Belgian companies, when compared to Australian companies. Theoretical arguments were drawn from institutional theory. Data for the study were collected through a questionnaire that was sent out to chief audit executives in Australia and Belgium. The paper finds that the weaker focus of the Belgian corporate governance guidelines on risk management and internal control is associated with less developed risk management and internal control systems in Belgian companies than in Australian companies.

Mihret (2013) studied the role of internal auditing in risk management. This paper was based on a theoretical analysis of the role of internal auditing in the accountability framework of contemporary corporate governance. They conceptualize the risk management rationale of internal auditing by drawing on the concept of accountability. They locate the emergence of internal auditing within the metamorphosis of capitalism. It is argued that this development produced the institutionalization of structural control of the firm to address the control problem

in the inherently conflicting relationships that characterize accountability relations of capitalist enterprises. The exercise of control in this context entails ensuring accountability of employees, management and the board of directors to shareholders to increase profit. The extant literature does not provide an integrated conceptual framework that explains the role of internal auditing with a holistic view of this accountability landscape. The paper explains how the accountability relations of advanced capitalism create conditions that produce the demand for internal auditing as a risk management technology deployed to advance the managerial values of efficiency and effectiveness of the firm through assurance and advisory services.
According to study done by *Kingston, Grace and Yan (2016) on risk* management and corporate governance, indicated that risk management has been a critical area of corporate governance since the 2008 financial crisis. The crisis demonstrated that a number of problematic financial institutions did not have effective risk management. Those financial institutions failed to monitor potential risks. Risk management, in fact, is the process of identification, assessment and prioritization of risks by both the board and the management to monitor, minimize and control the probability and the impact of risks (*Yan et al. 2016).* Only if potential threats and opportunities are identified can a company apply good governance to cope with the evolving environment. The company's management should invest more resources in risk management and this should form an essential part of the company's strategy.
Moreover, as the consultation paper on risk management and internal control issued by Hong Kong Exchanges and Clearing Ltd (the Exchange) in June 2014 emphasized, companies' risk management systems need to be fully integrated with their internal controls. Currently, jurisdictions in other countries such as UK, Australia and Singapore have already incorporated risk management requirements in the internal control section of their corporate governance codes (*Yan et al. 2016).* All these codes require the board to maintain a sound risk management and internal control framework system. In accordance with this global trend, it is necessary for companies in Hong Kong to ensure an effective framework for risk management and internal controls and to ensure full disclosure in this area.

**Conceptual Framework**

The conceptual framework is meant to demystify the relationship between research variables. The independent variables are; risk management while the dependent variable corporate governance.

**Independent variables** | **Dependent variable**

**Internal Audit**

Risk management
- ✓ Risk exposure
- ✓ Monitoring
- ✓ Assessment
- ✓ Mitigating

**Corporate Governance**

Corporate Governance
- ✓ Managerial Discipline
- ✓ Good Board Independence
- ✓ Protection of Shareholders' Rights
- ✓ Board Responsibilities

**3.0 Methodology**

**Research Design**

The study adopted descriptive research design. This is because the study sought to have an accurate description of the study variables and also study the relationship between the aforesaid variables. Using descriptive research design allows for gathering in-depth information that may be either quantitative (surveys) or qualitative (observations or case studies) in nature. This allows for a multifaceted approach to data collection and analysis.

**Target Population**

The target population refers to the group of people or study subjects who are similar in one or more ways and which forms the subject of the study in a particular survey Orodho (2003). The study targeted 45 licensed SACCO in Nairobi County. In the study the target population was 180 respondents from licensed SACCO in Nairobi County (SASRA, 2017).

**Sample size and Sampling Procedures.**

The sample size is an important feature of any empirical study in which the goal is to make inferences about a population from a sample. Sampling technique refers to a procedure of selecting a part of population on which research can be conducted, which ensures that conclusions from the study can be generalized to the entire population. The study employed purposive sampling technique and simple random sampling in selecting the respondents. The researcher obtained sample size using Slovin's Formula

$n = N / (1 + Ne^2)$
Where
n = Number of samples,
N = Total population
e = Error tolerance 0.05
Therefore $n = 180 / (1 + 180*0.05^2)$
n = 124

**Research Instruments**

The main tools of data collection in this study were a questionnaire.

**Questionnaire**

The questionnaires consisted of both open ended and closed ended questions. The questionnaires were sub-divided into sections so as to capture the response and details required. The purpose for using questionnaires is because they are easier to administer and easy to analyze, since each item is followed by an alternative answer (Vehovar, 2003).

**Pilot Study**

In order to ascertain reliability and validity of the research instruments, the researcher piloted the instruments by distributing 12 questionnaires to respondents in Saccos in Eldoret town, which were not part of the area sampled. The pilot respondents represented 10% of the sample size. The results of the piloted research instruments enabled the researcher to determine the consistency of responses made by respondents and adjust the items accordingly by revising the document.

**Validity of Research Instruments**

Validity of the instruments was determined through the content validity of the instruments. Content validity is concerned with whether or not a test or measuring instrument is a representative of a full content under study, Shaw &Weir (*2007).* The subject-matter experts who are in Sacco's, Eldoret provided with access to the measurement tool and were asked to provide feedback on how well each question measures the construct in question.

**Reliability of Research Instrument**

Cronbach's Alpha was used to test for reliability where value above 0.7 was considered acceptable. According to Pallant (2011) when using the Cronbach's Alpha coefficient value to test reliability, a value above 0.7 is considered acceptable; however, a value above 0.8 is preferable. This method requires neither the splitting of items into halves nor the multiple administrations of instruments. The internal consistency method provides a unique estimate of reliability for the given test administration.

**Data processing and Analysis**

The data obtained from the research instruments were analyzed**.** The study adopted descriptive and inferential statistics data analysis techniques to analyze data. The data were analyzed quantitatively and qualitatively. Quantitative data were analyzed using Statistical Package for Social Sciences (SPSS) version 24 where descriptive statistics and inferential statistics were used. Descriptive statistics were percentages, frequencies, mean, and standard deviation. This helped to analyze background information of the respondents and their opinions on the research objectivize. Inferentially data was analyzed using correlation and multiple regression models because it provided the most accurate interpretation of the independent variables. ANOVA from regression was used to show the goodness of the fit of the model and correlation was used to check correlation of study variables. The hypotheses of the study were tested using multiple regression analysis. ANOVA and multiple regression analysis involved finding the best straight line relationship to explain how the variation in an outcome (or dependent) variable, Y, depends on the variation in a predictor (or independent or explanatory) variable, X. Once the relationship is estimated it is possible to use the equation:

$Y= \beta o+ \beta_1X_1+ +\varepsilon$………………………………………………… ………………equation 3.1

Where,
Y = Composite index representing corporate governance
$\beta o$=Constant term
X= The independent variables - $X_1$ Represent Risk Management
$\beta_1, \beta_2, \beta_3$ and $\beta_4$ are the coefficients of proportionality for risk management and $\varepsilon$ Represents Error term

## 4.0 DATA ANALYSIS, PRESENTATION AND INTERPRETATION

**Descriptive Statistics**

A total of 124 research instruments were sent out to the respondents to fill and collect the required information. Of these 90 questionnaires, were returned for analysis when completely filled. The completely filled returned 90 research instruments accounted for a response rate of 75%. According to Mugenda and Mugenda (1999) a response rate of 70% and above is acceptable and therefore, a response rate of 75% was satisfactory for data analysis. Table 4.1 shows the response rate.

**Table 4.1: Response rate**

| Category | Frequency | Percentage |
|---|---|---|
| Administered | 124 | 100.0 |
| Returned | 90 | 75.0 |

**Validity and Reliability**

The validity of the research instruments was determined through the content validity. Content validity is concerned with whether or not a test or measuring instrument is a representative of a full content under study, Shaw &Weir *(2007).* Cronbach's Alpha was used to test for reliability where value above 0.7 was considered acceptable. According to Pallant (2011) when using the Cronbach's Alpha coefficient value to test reliability, a value above 0.7 is considered acceptable; however, a value above 0.8 is preferable. The results of the reliability tests were as shown in the (Table 4.2);

**Table 4.2 Reliability Test**

| Items | Cronbach's Alpha | N of Items |
|---|---|---|
| Risk management | 0.896 | 4 |

The study findings indicated that all values of Cronbach's Alpha were above 0.7 giving an implication that the research instruments used for data collection were reliable.

**4.4 Demographic Characteristics of the respondents**

Among the demographic information sought were; gender, age, years of work and education level.

**Table 4.3: Gender of the respondents**

| Gender | Frequency | Percent |
|---|---|---|
| Male | 52 | 57.8 |
| Female | 38 | 42.2 |
| Total | 90 | 100.0 |

Table 4.3 shows that majority 52(57.8%) of the respondents were male while 38(42.2%) were female. This implies that employment in the SACCO obeys a third gender rule as per the constitution of Kenya.

**Table 4. 4: Age of the respondents**

| Age Category | Frequency | Percent |
|---|---|---|
| 18-29 years | 17 | 18.9 |
| 30-39 years | 58 | 64.4 |
| 40-49 years | 15 | 16.7 |
| Total | 90 | 100.0 |

Table 4.4 shows that 17(18.9%) of the respondents were 18-29 years, majority 58(64.4%) 30-39 years, 15(16.7%) 40-49 years. This implies that majority of respondents are old enough to give accurate information concerning internal audit on corporate governance in savings and credit co-operative societies.

**Table 4. 5: Period worked in the SACCO**

| Working period | Frequency | Percent |
|---|---|---|
| below 5 year | 44 | 48.9 |
| 5-10 years | 36 | 40.0 |
| 10 -above years | 10 | 11.1 |
| Total | 90 | 100.0 |

Table 4.5 shows that majority 44(48.9%) of the respondents had worked in the SACCO for a period of less than 5 years, 36(40.0%) of respondents has worked for 5-10 years and 10(11.1%) of respondents had worked for a period of 10 years and above. This implies that most of the respondents had worked for a period of less than 5 years implying they have accurate information concerning effect of internal audit on corporate governance in savings and credit co-operative societies. Lastly, the respondents were asked to indicate their level of education. This is presented in Table 4.6.

**Analysis of Specific Objective**

The study established effect of risk management on corporate governance in savings and credit co-operative societies in Nairobi county- Kenya. The analysis, therefore, opens with the descriptive statistics (frequency and percentage). The study determined the respondents' level of agreement on a five point Likert scale. The Likert scale used ranged from strongly disagree (1) to strongly agree (5).

**Effects of risk management on corporate governance in SACCOS**

**Table 4.6: Statement on risk management and corporate governance in SACCOS**

| Statement | N | Min | Max | Mean | Std. Dev | Variance |
|---|---|---|---|---|---|---|
| The SACCO has been able to identify risk exposure through risk management. | 90 | 3.00 | 5.00 | 4.34 | 0.602 | .363 |
| The Sacco has been able to monitor risk in order to strengthen of poor controls | 90 | 3.00 | 5.00 | 4.52 | 0.565 | .320 |
| Through risk management the Sacco has been able to assess and facilitate the risk reporting and escalation process | 90 | 3.00 | 5.00 | 4.24 | 0.708 | .501 |
| Mitigating operational risk has added value to the Sacco | 90 | 3.00 | 5.00 | 4.5 | 0.657 | .433 |

The research findings in table 4.6 shows that respondents agreed (M=4.34 and Std. Dev =0.60) that the SACCO has been able to identify risk exposure through risk management. Research findings also showed that respondents agreed (M=4.52 and Std. Dev =0.56) that the Sacco has been able to monitor risk in order to strengthen of poor controls. Respondents also appeared to agree (M=4.24 and Std. Dev =0.71) that through risk management the Sacco has been able to assess and facilitate the risk reporting and escalation process and respondents agreed (M=4.50 and Std. Dev =0.65) that mitigating operational risk has added value to the Sacco

The study findings indicated that risk management has an effect on corporate governance in SACCOS. This is because majority of respondents agreed that the SACCO has been able to identify risk exposure through risk management. Some indicated that the Sacco has been able to monitor risk in order to strengthen of poor controls and through risk management the Sacco has been able to assess and facilitate the risk reporting and escalation process. This implies that risk management helps corporate governance accomplish their objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, control and governance processes.

**Corporate Governance**

The study assessed corporate governance in Sacco's. The study assessed the respondents' level of agreement on a five point Likert scale of the corporate governance in Sacco's (Table 4.12).Where; 1=strongly disagree, 2=Disagree, 3=Undecided, 4= Agree and 5= Strongly Agree.

**Table 4.7: Corporate Governance**

| Statement | N | Min | Max | Mean | Std. Dev | Variance |
|---|---|---|---|---|---|---|
| Good managerial discipline enhances corporate governance in the Sacco. | 90 | 1.00 | 5.00 | 4.04 | 1.12 | 1.256 |
| There is good board independence in the Sacco. | 90 | 1.00 | 5.00 | 4.7 | 0.66 | .437 |
| There is protection of shareholders' rights in the Sacco. | 90 | 1.00 | 5.00 | 4.55 | 0.79 | .632 |
| Board responsibilities enhance corporate governance in the Sacco | 90 | 1.00 | 5.00 | 4.58 | 0.77 | .604 |

From table 4.7 results indicated that respondents tended to agree (M=4.04 and SD=1.12) that good managerial discipline enhance corporate governance in the Sacco. It emerged from the study that (M=4.70 and SD=0.66) of respondents tended to agreed that there is good board independence in the Sacco. The study findings suggested that (M=4.55 and SD=0.79) of respondents tended to agree that there is protection of shareholders' rights in the Sacco. It also emerged from the study that (M=4.58 and SD=0.77) of respondents tended to agree that board responsibilities enhance corporate governance in the Sacco.

The study findings imply that the activities of committee involved in corporate governance has an effect on its overall performance. This is because when there is good managerial discipline the performance of corporate governance in the Sacco can be enhanced. When there is good board independence, protection of shareholders' rights and board responsibilities corporate governance in the Sacco can be enhanced.

**Inferential Statistics**

This section describes the results of correlation and multiple regression analysis based on study objectives. Correlation analysis was done to examine the relationship between each of independent variables and dependent variable. The correlation coefficient *r* measures the strength and direction of a linear relationship between each of independent variables and dependent variable. The value of *r* is always between +1 and –1.

**Correlation between Risk Management and Corporate Governance**

The study examined the relationship between risk management and corporate governance. The correlation analysis results are presented in 4.8.

**Table 4.8 Correlation between Risk Management and Corporate Governance**

| | | Corporate Governance |
|---|---|---|
| **Risk Management** | Pearson Correlation | .581 |
| | Sig. (2-tailed) | .000 |

From the study findings (table 4.8) on correlation revealed that Pearson correlation coefficient, *r*, was 0.581, and that it was statistically significant ($p<0.01$). A Pearson product-moment correlation was run to determine the relationship between risk management and corporate governance. There was a moderate uphill (positive) relationship between risk management and corporate governance, which was statistically significant ($r = 0.581$, $n = 90$, $p<0.01$).

**Multiple Regression Analysis**

Through multiple regression analysis, the study examined the effect of internal audit on corporate governance in savings and credit co-operative societies. The relevant results of analysis are presented in the following tables;

**Table 4.9 Multiple Regression Model Summary**

Model Summary

| **Model** | R | R Square | Adjusted R Square | Std. Error of the Estimate | Durbin-Watson |
|---|---|---|---|---|---|
| **1** | .806 | .649 | .633 | .38448 | 1.608 |

Table 4.9 *R* value represents the simple correlation and is 0.806, which indicates a high degree of correlation. The $R^2$ value indicates how much of the total variation in the dependent variable, corporate governance, can be explained by the independent variable risk management. In this case, 64.9% can be explained. However, the typical error when the model is used to predict research success is 0.627

**Table 4.10 Testing the Multiple Regression Model**

ANOVA

| **Model** | | Sum of Squares | Df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| **1** | Regression | 23.269 | 4 | 5.817 | 39.352 | .000 |
| | Residual | 12.565 | 85 | .148 | | |
| | Total | 35.833 | 89 | | | |

From table 4.10 above the F test provides an overall test of significance of the fitted regression model. The F value indicates that all the variables in the equation are important hence the overall regression is significant. The F-statistics produced (F = 6.568) was significant at $p<0.05$ thus confirming the fitness of the model and therefore, there is statistically significant relationship between effect of risk managemnet on corporate governance, this implies that regression model predicts the dependent variable significantly well. The regression model statistically significantly predicts the outcome variable; it is a good fit for the data.

**Table 4.11 evaluating individual Regression Analysis Coefficients**

| **Model** | **Unstandardized Coefficients** | | **Standardized Coefficients** | **t** | **Sig.** |
|---|---|---|---|---|---|
| | B | Std. Error | Beta | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| 1 | (Constant) | .690 | .314 | | 2.200 | .031 |
| | Risk Management | .166 | .074 | .178 | 2.226 | .029 |

The results from the coefficients, illustrate that the coefficient were all significant to be used for multiple regression was for risk management ($\beta$=0.178, $p<0.05$. This implies that a unit increase in risk management will cause a 0.166 increase in corporate governance.

The multiple regression model equation was developed as below;

$Y = 0.690 + 0.178 X_1 +$ …………………………………………………………….. Equation 4.1

This translates to the following model;

Corporate Governance = 0.690 + 0.178 (risk management)

**Hypotheses Testing**

The null hypothesis $H_{01}$ stated that there is no significant relationship on risk management on corporate governance in Sacco's in Nairobi County. However the study findings indicated that risk management has a positive and significant effect on corporate governance ($\beta$=0.178, $P<0.05$). Thus, the study findings rejected the null hypothesis. This gives an implication that risk management measures applied in a Sacco enhances corporate governance. Therefore, the Sacco can be able to monitor risk in order to strengthen corporate governance in and through risk management the Sacco has been able to assess and facilitate the risk reporting and escalation process.

These study findings concur with study done by Barasa (2015) on the role of internal audit in promoting good governance in public institutions in Kenya. The study findings indicated that there was a strong significant relationship between internal audit and good governance in public institutions. This was because the study found that public institutions in Kenya have good systems of internal audit that ensure institutions are well managed in terms of risk management.

The study findings also agree with the study done by Saud and Marchand (2012) on contribution of internal audit in the achievement of corporate goals. Their study mentions that an internal audit contributes (indirectly) in the achievement of organization objectives and can also improve organization's efficiency.

**5.0 SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS**

The study established that risk management has a positive significant effect on corporate governance in SACCOS. This gives an implication that risk management applied in a Sacco can be used to identify risk exposure, therefore the study indicated that risk management promotes good corporate governance. The Sacco can able to monitor risk in order to strengthen of poor controls and also through risk management the Sacco has been able to assess and facilitate the risk reporting and escalation process.

**Conclusion of the study**

These conclusions can be evidence from the specific objectives that risk management enhances corporate governance in SACCOS. This can be seen through the use of risk management to identify risk exposure. The Sacco can able to monitor risk in order to strengthen of poor controls and through risk management the Sacco has been able to assess and facilitate the risk reporting and escalation process.

**Recommendation of the study**

In reference to the findings, conclusions and the guidance from the literature review, the study recommends that;

The SACCOs should adopt risk management and effectively used to identify risk exposure and monitor risk in order to strengthen of poor controls.

The Sacco's should improve on the use of internal controls in monitoring their operations in order control consciousness of its employees. They should contact accounting assessment by identifying and analyzing the relevant risks to the achievement of objectives, forming a basis for how the risks should be managed.

**5.5 Recommendation for further Studies**

The researcher suggests the following further areas of research

A research should be carried on the effect of other elements of internal audit on corporate governance.

Further research should be done on the mediating effects on the relationship between internal audits on corporate governance.

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