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Corporate Governance and Financial Performance of Savings and Credit Cooperatives: A Perspective of Kyamuhunga Peoples Village Bank, Bushenyi District, Western Uganda

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Abstract: This article evaluates the relationship between corporate governance practices and financial performance of savings and credit cooperatives in Kyamuhunga people's village bank, Bushenyi District, western Uganda. The study adopted a cross sectional study design which was both quantitative and qualitative because John, Senbet & Amin assert that studies of this nature may be more productively undertaken because data can be collected from a cross section of a population in a short time and then results generalized to represent the entire population of the study. A structured questionnaire and an interview guide were used to collect data from the respondents. Data was analyzed using frequencies, percentages, means, standard deviation and Pearson linear correlation coefficient. The findings revealed that there was a positive correlation between the board size and financial performance. It was also revealed that board size of the village banks contributes to the financial performance for instance the smaller board size, the lesser the expenditure and thus affecting fairly the profitability of the village banks. The study recommended that Village banks should not have a very big board size because this affects their financial performance since expenses like sitting allowances may always be much. Top management should quite often organise seminars board members to fully be equipped with management knowledge and skills for better decision making.
Keywords: corporate governance, Financial Performance, cooperatives, Uganda

INTRODUCTION

According to a report by Association of Micro Finance Institutions in Uganda (AMFIU) report [1], globally two out of at least three Savings Credit Cooperative Organisations (SACCOs) also known as village banks, formed earlier were not in operation since they ceased operations or are basically dormant. A study conducted by World Council of Credit Unions (WOCCU) (2005-2008) [9] indicated that the trend in the loans given by SACCOs had declined since 2008. The report showed that loans had increased by 23.15% in 2005-2006, increased by 26.71% in 2006-2007. However, the trend reduced in 2007-2008 by 3.46% and later reduced by 23.25%. Therefore, IMF report [2] concluded that SACCOs had faced many problems which have destroyed their previous reputation as the providers of financial services.

Corporate governance in cooperative societies is a sensitive and complex issue since cooperatives are entrenched in the law of democracy regarding decision making and they have a wider ownership than other classical firms [3]. Even with the stringent laws, the AMFIU Report [1] observed that governance among Savings and credit cooperative organizations still faced challenges and that their risk was highest among other cooperative societies, since they are involved in collecting and intermediating members' savings. Consequently, Cuevas & Fischer [4] explained that SACCOs operate under a high credit risk as well as operational risks.

In Uganda, the position of SACCOs has been heightened by the launch of the government policy "Bonna Bagaggawale" ("Prosperity for All") a program intended among other interventions to address inadequate access to financial services. This program is designed to use a SACCO per sub-county strategy to channel both agricultural and commercial loans at below market rates to borrowers. Micro Capital Monitor [5] identifies that the government of Uganda has set aside the equivalent of United States dollars (USD) 133.7 million for subsidized loans to individuals and small businesses through the government-owned Microfinance Support Center (MSC) to Savings and Credit Cooperative Organizations (SACCOs).

METHODOLOGY

The study used a cross sectional survey research design with both qualitative and quantitative approaches in order to describe the situation and the sample. This is also intended to have representative samples of the sections of the geographical scope. The study selected a total of 385 respondents (sample size) out of 10052 participants (target population). A questionnaire was used because it collects a lot of information within a short period of time [6]. Simple random sampling was used to collect data because the researcher wanted to give equal chances to the respondents. Purposive sampling was also used in order to get vital information from targeted participants. Interviews were also used to help the researcher collect information that cannot be directly observed or difficult to put down in writing [6].

The validity of the instrument (structured questionnaire) was examined using content validity Index by expert judges in corporate governance and financial performance. Nonetheless, the validity of the interviews was got by interviewing vital respondents to validate the questionnaires [7]. The reliability of the Questionnaire was reached at using cronbach's alpha coefficient formula .Nevertheless; the reliability of the interviews was got by prolonged conversations with respondents [7]. Descriptive statistics and Pearson linear correlation coefficient were used to analyse data. Qualitative data was analyzed by categorising data into meaningful themes and sub- themes for quick interpretation along a story style [7].

RESULTS

From the findings below in Table 1, it can be observed that majority of the respondents were male with 224(58.2%) responses, their counterparts the females were 161(41.8%). This implied that the majority of the account holders in the SACCO are males. This further meant that men in society may be better off economically than women and it may prolong the syndrome of male dominance in societies.

Table 1: Gender of the Respondents

	Item	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	MALE	224	58.2	58.2	58.2
	FEMALE	161	41.8	41.8	100.0
	Total	**385**	**100.0**	**100.0**	

Source: primary data

According to Table 2 below, the findings revealed that most members 133(34.5%) have been members of the SACCO for a period between 1 to 3 years, they are followed by those who have been members of the SACCO between 3-5 years and they were 123(31.9%), those who have been there for more than 5 years followed and they were 83(21.6%) the least responses were those who have been there for less than 1 year and they were 46(11.9%). This meant that majority of respondents have at least stayed in the SACCO for a long period of time and therefore have a good understanding of the corporate governance practices in the SACCO. This further suggested that the members of Kyamuhunga village bank can use this long term experience to improve on the quality of services.

Table 2: Period the respondents have been members of the SACCO

Item		**Frequency**	**Percent**	**Valid Percent**	**Cumulative Percent**
Valid	LESS THAN 1year	46	11.9	11.9	11.9
	1-3years	133	34.5	34.5	46.5
	3-5years	123	31.9	31.9	78.4
	ABOVE 5years	83	21.6	21.6	100.0
	Total	**385**	**100.0**	**100.0**	

Source: primary data

Results from Table 3 below, revealed that board size has a strong contribution to financial performance (overall mean of 1.6255). The results indicated that most respondents strongly agreed that Board size affects financial decision making (mean= 1.33), they also to large extent agreed that board size affects financial communication and financial planning (mean=1.63, mean=1.64)respectively, and finally to a small extent most respondents were in agreement that board size affects coordination and that a large board size affects the village bank in terms of financial constraints, inefficiency and ineffectiveness ; all this were represented by the (mean=1.71,mean=1.72, mean=1.73)respectively.

Using responses from the respondents, descriptive statistics were generated for the board size variable using items in the questionnaires which were rated in the five point likert scale where by 1=Strongly Agree, 2=Agree, 3= Not sure, 4= disagree, 5=strongly disagree.

Table 3: Descriptive statistics on Board size

Item	N	Mean	Std. Deviation
The board size affects financial decision making	385	1.33	.610
Board size affects financial communication	385	1.63	.654
Board size impacts on financial planning	385	1.64	.555
Large Board size encourages members to be effective	385	1.73	.657
Large board size helps members to be efficient	385	1.72	.747
Board size affects the financial stand of members	385	1.71	.721
Board size	**385**	**1.6255**	**.40088**

Source: primary data

Results from Table 4 below, revealed that there is a positive correlation between the board size and financial Performance. ($r=0.322^{**}$, P-value<0.01), that board size of the SACCO contributes to the financial performance in a positive manner. This agrees with hypothesis that there is a positive relationship between board size and financial performance of SACCO. And therefore the hypothesis was accepted. (**. Correlation is significant at the 0.01 level (2-tailed))

Table 4: Relationship between Board size and financial performance

	Items	MBZ predictor construct	MFP Dependant variable
MBZ	Pearson Correlation	1	$.322^{**}$
	Sig. (2-tailed)		.000
	N	385	385
MFP	Pearson Correlation	$.322^{**}$	1
	Sig. (2-tailed)	.000	
	N	385	385

Source: primary data

Qualitatively, the Relationship between Board size and Financial Performance of Kyamuhunga People's SACCO was as follows;

The manager of the SACCO had this to say:

The smaller board size the lesser the expenditure and thus affecting favorably the profitability of the organization.

This implied that SACCOs must adopt the practice of having few board members in order to be efficient.

The Public relations officer of Kyamuhunga People's SACCO stated:

When the board size is small it reduces the sitting allowances and even decision making is arrived at easily.

This meant that the activities of the organization can be executed harmoniously, thus being effective.

DISCUSSION

The findings revealed that there is a positive correlation between the board size and financial performance. In other wards that board size of the SACCO contributes to the financial performance in a positive way.

This finding was in consonance with the qualitative results where, respondents said that the smaller board size the lesser the expenditure and thus affecting favorably the profitability of the SACCO.

The study was in agreement with the findings of Yermack [8], John & Senbet [9] Kyamuhunga People's SACCO who conducted a study on Board sizes. They found out that large boardrooms full of members tend to be slow in making decisions, and hence can be an obstacle to change as opposed to small board size.

Furthermore the results concurred with the findings of other scholars; John and Senbet [9], who conducted a study on Financial Performance in organizations. They found out that small board sizes enhance the performance of firms quoted on the stock exchange. However, there is a view that larger boards are better for corporate performance because they have a range of expertise to help make better decisions, and are harder for a powerful Chief Executive Officer (CEO) to dominate, Jensen [10].

CONCLUSION

It can be concluded that there is a positive correlation between the board size and financial performance. In other wards that board size of the SACCO contributes to the financial performance for instance the smaller board size the lesser the expenditure and thus affecting favorably the profitability of the SACCOs. It is also true that when the board size is small it reduces the sitting allowances and even decision making is arrived at easily. SACCO‘s should not have a very big board size because this affects their finances since expenses like sitting allowance will always be much

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