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Corporate Governance Practices and Performance of Cooperative Financial Institutions

Lucas Patrick

Assistant Lecturer, Moshi Cooperative University, Tanzania

Gideon Obeid

Assistant Lecturer, Moshi Cooperative University, Tanzania

Juliet Njau

Assistant Lecturer, Moshi Cooperative University, Tanzania

Abstract:

This study examined the relationship between corporate governance practices and performance of cooperative financial institutions. The study was conducted in Kilimanjaro region. Specifically, it examined whether the cooperative financial institutions conform to corporate governance practices and establish relationship between the corporate governance practices and the performance of cooperative financial institutions. The study employed explanatory research design. Sample size was seventy respondents; however response were from sixty five respondents. Both primary and secondary data were collected. Primary data were collected through questionnaires and interview and secondary through documentary review. Data were analyzed using descriptive statistics and correlation analysis to determine relationship between corporate governance and performance of cooperative financial institution. Findings revealed that more than fifty percent of SACCOS were found to comply less with corporate governance practices. The practices tested were education level of board members, board size, internal control and internal audit, reporting and disclosure and board composition in terms of skills furthermore corporate governance and performance were found to be positively correlated. The weak corporate governance has lead to fraud and low membership in SACCOS. The study recommends that SACCOS should regularly organize business management skills training for the board members to enhance their understanding of SACCO's operations. This will improve the level of supervision and monitoring in the SACCOS.

Keywords: Corporate governance, Cooperative financial institutions, financial performance

1. Introduction

1.1. Background of the Study

Effective corporate governance is essential to any successful organization. It is the process whereby persons entrusted with the future of an organization exercise oversight. Good corporate governance enhances compliance in adhering to policies, rules and regulations. An organization gets into trouble when they fail to execute these duties properly (Anand 2007). If a company has a reputation of strong governance practices leads to greater confidence in the investors, which in turn leads to a good flow in capital. Good corporate governance allows even outsiders to assess the company on how well it is being governed. Corporate governance enhances more transparency of the business thus attaining the trust of its stakeholders. Raising capital also becomes easier because of the support the company gets from its stakeholders. The corporate value of the company is increased by adopting good corporate governance practices (Monks, 2011).

Demand of good corporate governance came through shareholders of major corporate entities to guard their resources and assets from bankruptcies and more specifically guarding against fraud and mismanagement (Strenger 2006). There has been evidence from literature of poor governance in the corporations, for example Enron of USA collapsed because of poor governance (Deakin et al., 2003). In cooperative financial institutions mismanagement has also been revealed for example there is evidence of poor governance which led to failure of cooperative financial institutions CFIs such as that which occurred in the 1970–80 in Latin America (Cuevas and Fischer, 2006).

In Africa the same situation has occurred where by the member of cooperative financial institutions CFIs have suffered big financial loss resulting from mismanagement. Taking Kenya as an example, the authority which is responsible for regulating saving and credit societies (SACCOS) reported financial losses suffered by members of SACCO due to poor management (Team BD, 2012). In the report on inspection conducted in Harambee SACCOS reports a serious liquidity crisis putting at risk member's money. It also showed that the SACCOS has been using creative accounting tactics to cover up fraud and non-payment of loans by some members. Furthermore it was found that Harambee SACCO operated without an internal audit function (Team BD,

2012). The other mismanagement practice was reported by (Otieno, 2012) that members lost Kenyan shillings 60 million as Kisumu SACCOS collapsed.

In Tanzania the situation is not different. In the study conducted by Akyoo (2011) at (KIFISACCOS) concludes serious financial problems faced by the SACCOS were internally caused rather than external. The problems identified include inadequate loan follow-ups by the management whereby the management was lenient in making loan follow-ups to the extent that bad debt grew to the total of TZS 837,666,585/=. Bad repayment system whereby it was possible a member to get loan refinanced before the outstanding balance on their previous loan was fully repaid. Inadequate collateral verification whereby KIFISACCOS staff and management confirmed to have never gone into the villages to verify collaterals before disbursing the loans and insider dealings where by some loans were made available to individuals through insider dealings. While all that was happening the board and supervisory committee which are there to protect interest of members were silence indicating that there was no good corporate governance.

Furthermore Inspection report on Wazalendo SACCOS (2013) reported a number of problems resulted from poor governance. Among the problems reported because of poor governance include the following: The board chairman overriding the management to the extent of undertaking day to day operational activities of the SACCOS such as making loans without following correct procedures to members and non members without involvement of loan committee. This was all against Cooperative Act Section 65 and Regulation no 93. Others were lack of audited financial statements for four years which is against Cooperative Act Section 48(1-8) and Regulation 29. (Inspection report on Wazalendo SACCOS 2013).

Most of problems reported in cooperative financial institution stem from mismanagement. If cooperative financial institutions were managed properly have big contribution to economy. For example SACCOS which is member based financial institution play important role in the economy. They play important role on lending, mobilizing savings and management at local level. SACCOS appear to be a very promising mechanism for delivery of financial services to the rural poor throughout the country. In view of their nearness to their clients, the operating and transaction costs of SACCOS are relatively low. Organizations formed by beneficiaries themselves, they latter feel a sense of ownership in their respective SACCOS and hence ensure that operations are conducted according to established criteria and procedures. This has resulted in more effective operations (IFAD 2013).

1.2. Statement of the Problem

Co-operatives are value and ethical-based organizations. But despite their uniqueness and elaborate values of self responsibility, democracy, equity and equality, they on top, need good governance. Good corporate governance practice provides a way to realize the vision of mitigating risk and optimizing performance in today's competitive and regulatory environment (Vrajlal 2010). The achievement or collapse of entities is dependent on the level to which they are managed efficiently. Good corporate governance practices boost firm performance through better management and wise allocation of firms' resources. Profits resulting from improved performance contribute significantly to share prices. Therefore good corporate governance practices can increase the demand for shares as well as increase the share price of firm, on the other hand poor corporate governance can lead to collapse of the firm because demand for its share will fall and the price of its share will go down (Mobius, 2002). Many cooperative financial institutions have been registered but it is only very few grow to large cooperative financial institution. It has been argued that it is a fruitless exercise to continue to register financial co-operatives that will end up small, redundant, lose member savings due to operational and governance weaknesses. (Kyazee, 2010).

Lampton (2011) argued that in general there is no difference in performance for companies having poor and excellent quality of governance. Hence concluded that no significant relationship between corporate governance and financial performance in the study that was conducted in 100 top listed companies in Mauritius. However, the researcher undertook the study in cooperative financial institution (CFIs) which are of different nature and are governed by Cooperative Act in which a lot of power is left with members which is differing from listed company in which shareholders are highly protected by the requirements of the company law and stock exchange commission. However (Klapper and Love 2002) found that, better corporate governance is highly correlated with better operating performance and market valuation. They provide evidence showing that firm level corporate governance matter more in countries with weak legal environments. Bhagat and Bolton (2008) supported (Klapper and Love 2002) argument that there is positive relationship between corporate governance and firm performance. The study was conducted taking sample from listed companies. The authors focus on stock ownership of board members to arrive at their conclusion. They argued that by the board members being owner will make them feel motivated to perform better since they will also benefit. In cooperative institutions board members are appointed from members who are owners. In companies when the board members are also stock owners result to good governance of corporation and hence good performance. However in cooperative financial institutions, the performance is poor despite the all directors being members of cooperative. Therefore if the situation of mismanagement in CFIs will be left, more cooperative financial institutions will keep on collapsing. This was the situation which motivated the researcher to undertake the study of examining the corporate governance practices in CFIs and its influence on the performance of cooperative financial institution.

1.3. Objectives

The main purpose of this study was to examine the corporate governance practices and performance of cooperative financial institutions. Specifically the study examined whether the cooperative financial institutions conform to good corporate governance practices and established the relationship between the corporate governance practices and the financial performance of cooperative financial institutions.

1.4. Significance of the Study

The findings of this study add to the efforts of government regulators in coming up with regulations that will govern the operations of cooperative financial institutions. The study will facilitate better CFIs management by enhancing the knowledge of the board members in overseeing the management of cooperative financial institutions. Knowledge gained will be used to increase awareness of cooperative financial institutions on importance of corporate governance practices for enhanced performance.

2. Literature Review

2.1. Cooperatives

Cooperatives refer to an association of persons who have voluntarily joined together for the purpose of achieving a common need through the formation of a democratically controlled organization and who make equitable contributions to the capital required for the formation of such an organization and who accept the risks and the benefits of the undertaking in which they actively participate (URT, 2003). Cooperatives are governed by values of self help, democracy, equality, equity and solidarity. Cooperators believe in ethical values of honesty, openness, social responsibility and caring for others. Cooperatives are uniquely governed further by the cooperative principles which are internationally recognized. These principles act as methods used in the operation and administration of a society. The cooperative principles includes, Voluntary and open membership, Democratic member control, Member economic Participation, Autonomy and independence, Education training and information, Cooperation among cooperatives, Concern for community (URT, 2003).

2.2. Cooperative Financial Institutions (CFIs)

Cooperative financial institution means a society registered to render financial service (URT, 2003). It includes diverse member owned financial intermediaries which bear different name but in fact they are similar. CFI includes savings and credit cooperatives, credit unions, cooperative banks, and other that differ across regions of the world which are member owned financial intermediaries. In Tanzania CFIs includes saving and credit cooperative society (SACCOS), financial cooperatives and cooperative bank. Their institutional structure and governance, legal and regulatory status and scale of services portfolio also vary widely across regions and especially between developed countries and developing economies. A most basic common denominator is that they collect deposits and do business often solely with members. Most of CFIs serves poor people although middle-income people are also among their member (Cuevas and Fischer 2006).

2.3. Corporate Governance

Rezaee (2009) defined as a process through which shareholders induce management to act in their interests, providing investors degree of confidence that is necessary for the capital markets to function effectively. It is concerned with the duties and responsibilities of a company's board of directors to successfully lead the company and their relationship with its shareholders and other stakeholder groups (Pass 2004). Cadbury (1992) defined corporate governance as the system by which companies are directed and controlled. Corporate governance is concerned mainly with the establishment of structures and processes with appropriate checks and balances that enable directors to discharge their legal responsibilities, and oversee compliance with legislation (King III Report 2009).

2.4. Principles of Corporate Governance.

King III code and report 2009 provide governance principles which aimed at enhancing good governance for the any organization that will apply them. Some countries have included large part of these principle and practice to their corporate governance laws. These governance principles work in any organization whether public or private or profit or nonprofit making. CFIs as legal entities are required to apply those principles in order to ensure good governance. The principles cover all aspect of corporate governance; these principles are ethical leadership and corporate citizenship, boards and directors, audit committee, the governance of risk, the governance of information technology. Compliance with laws, rules, code and standards, internal audit, governing stakeholders' relationship, integrated report and disclosure. The report encourage all entities to adopt king III principles and explain how these have been applied or are not applicable.

2.5. Financial Performance of CFIs

In order to evaluate performance, it is necessary to determine the constituents of good performance using performance indicators. Performance indicator must be measurable, relevant and important to the performance of the organization, it must be meaningful and the cost of obtaining the information must not outweigh its value (Oakland 1989). There are many measures of firm performance. Financial measures of firm performance used in empirical research on corporate governance fit into both accounting-based measures and market-based measures (Kiel and Nicholson 2003). Most commonly used accounting based-measures are return on assets (ROA) which assess profitability, size and growth rate which are essential to monitor overall organizational performance and progress (Kiel and Nicholson 2003), return on equity (ROE) which provide information about the performance of debt in the capital structure that the general manager must try to influence in order to improve financial performance (Baysinger and Butler 1985), debt to equity ratio which assess the extent of debt capital (Qureshi 2007) and operating margin ratio. Empirical evidence of the relationship between measures of firm performance, based on accounting or market based performance indicators, and corporate governance attributes is mixed. There is much debate regarding the most reliable measures. However in review of corporate governance literature there appears to be no consensus regarding the efficiency about reliability of one measure over another (Dalton et al. 1998).

2.6. Agency Theory

To a large extent many of the studies conducted into corporate governance take ideas from agency theory. Agency theory is concerned with ensuring that managers act in the interest of the shareholders. It is based on the assertion of inherent conflict of interest between the owners and management (Fama and Jensen 1983). Berley and Means (1932), described that corporate governance has paying attention upon the separation of ownership and control which led to development of principal-agent problems. They argued that in the modern corporation the owner are dispersed in the different locations. These dispersed owners cannot meet to manage their firm thus they have to leave it in the hands of managers. They viewed corporate governance as system which board of directors can use to monitor manager's action and therefore minimize the problems which results from the principal-agent relationship. In the context of this study agents are the CFIs managers, principals are the owners/members and the board/committee act as the monitoring mechanism (Mallin, 2004). The separation of ownership from control may lead to managers of firms to take action which may not in the interest of the owners. The main purpose of the shareholders is found their wealth maximized. But due to their firm specific knowledge and expertise, managers would benefit themselves and not the owners. Thus because of such conflict of interest a monitoring mechanism (board/ committee) is designed to protect the owners interest (Meckling 1976). The agency role of the board members is reflected to the governance function of the board and committee in serving the shareholders by ratifying the decisions made by the CFIs management and monitoring the implementation of those decisions. Baysinger and Hoskisson (1990) argued that according to the perspective of agency theory the primary responsibility of the board of directors is towards the shareholders to ensure maximization of shareholder value.

2.7. Empirical Literature Review

Tusiime et al (2011) in their study on corporate governance which aimed at examining ownership structure, board structure and their relationship with public sector entities' performance in Uganda, using cross sectional and co relational research design found that CEO duality is not yet an issue as far as the performance of public sector entities in Uganda is concern. Findings indicate that 67% of the variance in public sector entities' performance is explained by ownership structure and board structure. The study concentrated on the board which is an important organ in directing organization. Corporate boards play a critical role by offering direction and guidance to any corporate entity. However this study will concentrate on cooperative financial institutions which are different from public sector entities in terms of ownership structure and board structure.

Bhagat and Bolton (2008) argued that there is positive relationship between corporate governance and firm performance. The authors focus on stock ownership of board members as corporate governance variable to arrive at their conclusion. The author argued that corporate boards have the power to make, or at least ratify, all important decisions including decisions about investment policy, management compensation policy and board governance itself. It is plausible that shareholders with appropriate stock ownership to be board members, because will have the incentive to provide effective monitoring and oversight of important corporate decisions. Therefore board ownership is a good proxy for overall corporate governance. In cooperative financial institutions board members are appointed from members who are owners. In companies when the board members are also stock owners result to good governance of corporation and hence good performance. However in cooperative financial institutions, the performance is poor despite the all directors being members of cooperative.

Heenetigala (2011) concluded that good corporate governance practices are important to the performance of firms. His study found that there is a positive relationship between separate leadership, board composition, corporate governance structures, board committees and firm performance. Analyzing the sample of top 50 listed companies the study established that firms which have implemented corporate governance strategies, have resulted in higher profitability and share price performance. The study was conducted in listed companies but this study will be conducted in cooperative financial institution, also the study was conducted in Sri Lanka where the corporate governance code is well established while this study is conducted in Tanzania in which the guidance for corporate governance is not precisely clear.

2.8. Summary

This chapter reviewed the literature in relation to corporate governance practices in both developed and developing countries. Previous researches reported good governance practices could help investors to have confidence in companies and thus enhance capital inflow and boost share price. However studies of corporate governance and firm performance relationships reported mixed results that are some show positive relationship others did not find significant relationship. The literatures show that corporate governance practices and firm performance has been studied very little in developing country like Tanzania. Most of literatures concentrate on the public limited companies. This chapter also reviewed the theories which are relevant to this study.

3. Methodology

This part addresses the way the study was carried out. It puts forward the design for the study, describing study population and sample size, data collection techniques and its analysis. Research design is general plan of how the researcher went about in answering the research questions (Saunders et al., 2009). The study employed explanatory research design. Population of the study was 5,424 SACCOS which are total number of SACCOS in Tanzania (URT 2012). The sampling frame for this study was all SACCOS in Kilimanjaro region which are 220 where the choice of sample was made. Stratified sampling was used to obtain sample which includes urban and rural SACCOS from all seven districts. Stratified was used because the characteristics of urban and rural SACCOS differs. Sample size used by this study was sixty five respondents. Both primary and secondary data were collected. Primary data were collected through questionnaires and interview and secondary through documentary review. Data were analyzed using descriptive statistics and correlation analysis to establish relationship between corporate governance and financial performance of cooperative financial institution.

4. Findings of the Study

This chapter presents the findings, analyses and discusses the findings basing on the objectives of the study.

4.1. Whether Cooperative Financial Institutions Conform to Corporate Governance Practices

The first objective of the study was to find out whether cooperative financial institutions conform to corporate governance practices. The findings are presented in the context of board size, board composition, education level of board members, internal control and internal audit and reporting and disclosure as factors for corporate governance. In answering this question, respondents were given number of statements in which they were supposed to rate.

4.1.1. Education Level of Board Members

Table 1 below shows the education level of board members. 46% of board members had primary education level, 30% of board members had secondary education, 14% of board members had collage and 10% had university education. This implies that majority of SACCOS are directed by the people who do not have business knowledge which may lead to governance problems. The findings concurs Bald (2007) findings which concluded that lack of business skills among the board members to run the SACCOS was one of the challenges of governance setting back SACCOS. The member control is challenged when faced with lack of know how within the committee members leading to weak policies and weak supervision of management. Many SACCO members do not know their rights and have no adequate financial literacy (Kyazze, 2010). The result shows that there is high need for capacity building to board members to find these boards undertaking their responsibilities effectively and efficiently.

	Primary	Secondary	Collage	University	Total
Number of directors	43	28	14	9	94
Percentage	46%	30%	14%	10%	100%

Table 1: Education level of board members

Source: Field data, (2013)

4.1.2. Board Size

Respondents were asked to indicate number of board members in their SACCOS. The study findings in Table 2 below indicate their responses:

Number of board member	Frequency	Percentage
5	19	29
6	14	22
7	13	20
8	0	0
9	19	29
Total	65	100

Table 2: Board size

Source: Field data, (2013)

Table 2 shows that 29% of SACCOS visited had 5 board members, 22% had 6 board members, 20% had 7 board members, 0% had 8 board members and 29% had 9 board members. The findings are in consistence with the WOCCU report(2005) which observed that the board with fewer member less than five encounters difficulties in decision making and the board with more than nine members may find difficulties in reaching consensus. WOCCU report (2007) recommends the board to have odd number of members to avoid vote tie up which causes delay in decision making. However 22% of the SACCOS visited had boards with even number of board members which is inconsistent with WOCCU report (2007).

4.1.3. Board Skills Composition

Respondents were asked to offer their opinion whether board members have some knowledge in business management. The study findings in Table 3 below indicate their responses:

Factors		Strongly disagree	disagree	Neutral	Agree	Strongly agree	Total
Board Members have some knowledge in business management	Frequency	12	25	14	12	2	65
	Percentage	18.5	38.5	21.5	18.5	3.1	100
Refresher courses on business skills are organized for board members regularly	Frequency	17	27	10	7	4	65
	Percentage	26.2	41.5	15.4	10.8	6.2	100

Table 3: Board skills composition

Source: Field data, (2013)

Table 3 shows that, 18.5% of the respondents strongly disagreed, 38.5% of the respondent disagreed, 21.5% of the respondents were neutral, 18.5% of the respondent agreed and 3.1% strongly agreed that board member had some knowledge in business. Overall 57% of respondents at least disagreed that the board members have knowledge in business management. On the other hand, at least 21.6% agreed that board members have knowledge in business management. The study findings were in consistency with the findings of Bald (2007) stating that lack of business skills among the board members to run the SACCOS was one of the challenges of governance setting back newly created SACCOS. It implies that the board members who are not knowledgeable are directing employees who have some knowledge in business management. The management and staff may be more powerful in influencing matters to suit their interest because of their expertise. The lack of business management skills causes the board members to be too obedient to management and thus lose their ability to question management.

Respondents also were asked to offer their opinion whether refresher courses on business skills were organized for board members regularly. The study findings in Table 3 above indicates that, 26.2% of the respondents strongly disagreed, 41.5% of the respondent disagreed, 15.4% of the respondents were neutral, 10.8% of the respondent agreed and 6.2% strongly agreed that refresher courses on business skills are organized for board members regularly. This implies that if the board members were lacking business skills will remain illiterate of business skills. Therefore board members will continue to make decisions which they don't know their repercussions on their SACCOS because of lack of business knowledge. Refer Table 1 education level of directors which show that 46% of board members were primary level who are generally lack business skills. The findings imply the need of refresher courses was seriously to increase capabilities and thereafter performance of cooperative financial institutions.

4.1.4. Internal Control and Internal Audit

Respondents were asked to offer their opinion whether supervisory committee ensure that the cooperative operating policies and procedures and expenditure control are followed. The study findings in Table 4 below indicate their responses:

		Strongly disagree	Disagreed	Neutral	Agree	Strongly agree	Total
Supervisory committee ensure that the cooperative operating policies and procedures and expenditure control are followed	Frequency	10	26	3	21	5	65
	Percentage	15.4	40	4.6	32.3	7.7	100
Supervisory committee regularly inspects books, records, and transaction documents of cooperative.	Frequency	3	29	4	25	4	65
	Percentage	4.6	44.6	6.2	38.5	6.2	100

Table 4: Internal control and internal audit

Source: Field data, (2013)

Table 4 portrays that, 15.4% of the respondents strongly disagreed, 40% of the respondent disagreed, 4.6% of the respondents were neutral, 32.3% of the respondent agreed and 7.7% strongly agreed that supervisory committee ensure that the cooperative operating policies and procedures and expenditure control are followed. In cooperative financial institutions specifically SACCOS supervisory committees are entrusted to ensure that internal control is working properly thus they work as internal auditors. Overall 55.4% at least disagreed and 40% at least agreed that supervisory committee ensure that the cooperative operating policies and procedures and expenditure control are followed. It implies that almost half of SACCOS operates without strict internal control therefore compliance with rules, regulation and procedures remains on the wishes of the management because of the weaknesses in internal control systems. This could be one among the reasons for failure of SACCOS.

Respondents also were asked to offer their opinion whether supervisory committee regularly inspects books, records, and transaction documents of cooperative. The responses are presented in Table 4 above. It shows that, 4.6% of the respondents strongly disagreed, 44.6% of the respondent disagreed, 6.2% of the respondents were neutral, 38.5% of the respondent agreed and

6.2% strongly agreed that supervisory committee regularly inspects books, records, and transaction documents of cooperative. The findings were 49.2% at least disagreed and 45% at least agreed. It indicates that that almost half of cooperative visited books and records and documents are not regularly inspected. Therefore the survival or collapse of SACCOS remains at the mercy of SACCOS management and staff because there is room for fraud. This situation of lack of serious internal audit is contributed by absence salaried person who will be responsible for internal audit. The current internal auditors are supervisory committee members who are just offered honorarium payment which is not motivating their daily presence. Therefore there is a need for having salaried employee working as internal auditor responsible for providing information regarding instances of fraud, corruption, unethical behavior and irregularities.

4.2. The Relationship between Corporate Governance Practices and the Financial Performance of CFIs

The second objective of the study was to examine the relationship between corporate governance and the performance of cooperative financial institutions. The relationship was tested through correlation analysis. The performance measure used include: profitability ratios which comprise Return on asset, Return on Equity, and Expense ratio, Capital structure ratio specifically debt to equity ratio, Membership growth rate and Portfolio quality specifically delinquency ratio. To determine whether SACCOS was performing good or bad, financial ratios computed were compared to benchmark ratios offered by World Council of Credit Unions (WOCCU statistics report 2005).

4.2.1. Correlations between Corporate Governance and Performance of CFIs

Correlation shows the strength of relationship between corporate governance variables and performance variables of SACCOS. The value in each cell of the matrix is correlation coefficient.

		Membership Growth Rate	Return on Assets	Debt to Equity	Delinquency ratio	Stock ownership	Board skills composition	Board size	Internal control
Membership Growth Rate	Pearson Correlation	1	.543**	.109	.055	.432	.554*	.492**	.732*
	Sig. (2-tailed)		.000	.089	.094	.069	.028	.000	.043
	N	65	65	65	65	65	65	65	65
Return on Assets	Pearson Correlation	.543**	1	.147	.486**	.356	.710*	.397**	.623*
	Sig. (2-tailed)	.000		.242	.000	.240	.046	.001	.048
	N	65	65	65	65	65	65	65	65
Debt to Equity	Pearson Correlation	.109	.147	1	.198	.298	.576*	.490**	.343
	Sig. (2-tailed)	.389	.242		.114	.283	.047	.000	.257
	N	65	65	65	65	65	65	65	65
Delinquency ratio	Pearson Correlation	.055	.486**	.198	1	.713	.634	.449	.756*
	Sig. (2-tailed)	.664	.000	.114		.126	.097	.286	.049
	N	65	65	65	65	65	65	65	65

Table 5: Correlations between corporate governance and performance of CFIs

Table 5 above reveals that the correlation between membership growth and board members being members of SACCOS is ($r = 0.432$ $p > 0.5$). This coefficient shows that there is fair positive relationship but not statistically significant relationship between membership growth and board members being members. There is statistically significant fair positive relationship between the membership growth and board members knowledge in business management ($r = 0.554$ $p < 0.05$). Furthermore there is statistically significant fair positive relationship between membership growth and board size ($r = 0.492$ $p < 0.01$) and a statistically significant strong positive relationship between membership growth and internal control ($r = 0.732$ $p < 0.05$). This implies that corporate governance practices enhance people to join the SACCOS. Specifically where there is strong internal control which assures member the safeness of their money.

The second relationship is between return on assets and corporate governance variables. Table 5 shows that there is statistically not significant, positive relationship between return on asset and all board members being members of SACCOS ($R = 0.356$ $P > 0.05$), however there is statistically significant strong positive relationship between return on asset and board members knowledge in business management ($r = 0.710$ $p < 0.05$). Furthermore there is statistically significant fair positive relationship

between return on asset and board size ($r = 0.397$ $p < 0.01$) and a statistically significant, fair positive relationship between return on asset and internal control ($r = 0.623$ $p < 0.05$). This implies that there is relationship between corporate governance and profitability of the firm. Board members knowledge and skills in business management is of great important since it has close relationship with profitability.

The third relationship is between debts to equity ratio and corporate governance variables. Table 5 indicates that there is not statistically significant fair positive relationship between debts to equity ratio and all board members being members of SACCOS ($r = 0.350$ $p > 0.05$), however there is statistically significant fair positive relationship between debt to equity ratio and board members knowledge and skills in business management ($r = 0.576$ $p < 0.05$). Furthermore there is statistically significant fair positive relationship between debts to equity ratio and board size ($r = 0.490$ $p < 0.01$) and a not statistically significant but fair positive relationship between debts to equity ratio and internal control ($r = 0.343$ $p > 0.05$). This implies that corporate governance practices influence capital structure of the SACCOS this possibly is because corporate governance ensures proper use of SACCOS money and therefore no unnecessary need of external funds.

The last relationship is between delinquency ratio and corporate governance variables. Table 5 reveals that there is statistically not significant but positive strong relationship between delinquency ratio and all board members being members of SACCOS ($r = 0.713$ $p > 0.05$). Also there is statistically not significant but positive relationship between delinquency ratio and board members knowledge and skills in business management ($r = 0.634$ $p > 0.05$). Furthermore there is statistically not significant but positive relationship between delinquency ratio and board size ($r = 0.449$ $p > 0.286$). However there is statistically significant strong positive relationship between delinquency ratio and internal control ($r = 0.756$ $p < 0.05$). This implies that there corporate governance influence influences the extent of delinquency in SACCOS. Internal control is the most essential corporate governance variable since it has high influence on delinquency. The extent to which supervisory committee ensures that the cooperative operating policies and procedures and expenditure control are followed reduce the amount of delinquent loan. Generally from all relationships, corporate governance variables have influence on the performance of SACCOS. These findings are supported by (Tusiime at al., 2011), (Heenetigala 2011) and (Klapper and Love, 2002) conclusions that better corporate governance is highly correlated with better operating performance of the firm. Therefore if the SACCOS will adhere to corporate governance practices, there is no doubt that their performance will improve as the findings above concluded.

5. Conclusions and Recommendations

5.1. Conclusion

On the basis of the findings, it can be concluded most of SACCOS visited were not fully complying with corporate governance practices. However, the study found that only a few SACCOS were complying to some extent with corporate governance practices. Most board members lack sufficient business knowledge, supervisory committee do not regularly inspect books, records, and transaction documents of cooperative and majority of board members are primary school level whose ability to question management seems to be low. This shows that corporate governance in cooperative financial institutions in Tanzania is practiced at low level therefore efforts are needed to improve the situation. The study found that corporate governance and performance were positively correlated. Financial and non financial criteria used to test relationship included profitability, membership growth, capital structure and asset quality. The findings call for the need to improve corporate governance which will enhance performance and sustainability of cooperative financial institutions in Tanzania.

5.2. Recommendations

Based on presented findings, implications, discussions, summary and conclusions, several issues would need to be addressed in order to improve corporate governance and performance of cooperative financial institutions in Tanzania. The following recommendations are among the issues that can be addressed to improve corporate governance and performance of cooperative financial institutions especially in Tanzania.

- In order to improve the competence of board members in managing SACCOS, there should be commitment to improve capacity of board members. SACCOS should regularly organize business management skills training for the board members. This improves the level of supervision and monitoring within the SACCOS.
- In many SACCOS internal control seems to be weak which influence embezzlement of members fund. Supervisory committees are needed to ensure that the cooperative operating policies and procedures and expenditure control are followed but the problem arise when the committee rarely meet and they don't know their duties and responsibilities. There is need for SACCOS to employ a person with accounting knowledge that will be responsible for internal control.
- Since the performance of SACCOS seems to be dependent on the corporate governance, there is need for the government to establish clear corporate governance guidelines for SACCOS and ensures their implementation. Implementation of the guidelines can be well enforced through establishing SACCOS regulatory authority.

5.3. Recommendation for Further Studies

This study was conducted using survey method but the similar study can conducted in the same area using longitudinal approach where measurements are repeated at periodic intervals on the same subject in order to track changes.

6. List of Abbreviations

- AGM- Annual General Meeting
- CFIs- Cooperative Financial Institutions
- KIFISACCOS- Kibaigwa Financial Services and Credit Cooperative Society
- ROA- Return on Assets
- ROE- Return on Equity
- SACCOS- Savings and Credit Cooperative Society
- SPSS- Statistical Package for Social Science
- URT- United Republic of Tanzania
- USA- United States of America
- WOCCU- World Council of Credit Unions

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