



EFFECTS OF CORPORATE GOVERNANCE ON THE FINANCIAL PERFORMANCE OF SAVINGS AND CREDIT COOPERATIVES IN RWANDA. CASE STUDY OF UMURENGE SACCO, RWAMAGANA DISTRICT.

A Dissertation Submitted to the University of Rwanda, College of Business and Economics in Partial Fulfillment of the Requirements for the Award of a Master Degree of Business Administration (Finance Option)

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DECLARATION

This thesis is my original work and has not been presented for examination in any other University.

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This thesis has been submitted to the University by Paul Shema under the guidance of Dr. Phillippe NDIKUBWIMANA. With my approval as his supervisor.

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DEDICATION

To my parents,

To my brothers, and

To my sisters.

ACKNOWLEDGEMENTS

The long period of time spent while researching and writing this dissertation was a long journey demanding, challenging and sometimes frustrating. I could never have managed to successfully pass through it without the support received from different individuals, I therefore owe them individually and collectively a big debt of gratitude. Firstly, I thank the Almighty God to have guided me for this journey I am finishing.

I owe most profound thanks to my supervisor, Dr. Phillippe NDIKUBWIMANA who did everything possible towards this achievement. His continued support and guidance up to the final phase of this work is widely recognised. My sincere thanks go to the government of Rwanda in particular the Ministry of Education that has managed to rebuild and extend education to quite a good level with quite a good number of us. I extend my thanks to UR's management and staff for the knowledge and skills I acquired from them.

I wish to record my gratitude appreciations to my brothers, sister and family friends for their unstilted encouragement, sacrifice and material support in the preparation of this research work, I am extremely grateful for numerous suggestions and complimentary opinions received on this report. I therefore thank you all and may the almighty God reward you accordingly.

I further thank the management of Umurenge SACCO that granted me permission to carry out my research study from their organization, may God bless them all.

To all of you, mentioned and not mentioned but sincerely contributed to the fulfilment of this study, may our Almighty GOD bless your plans!

SHEMA Paul

ABSTRACT

Most studies have come up with unpredictable findings in relation to research about Savings and Credit Cooperatives which don't fully resolve the issue of whether a SACCO's corporate governance leads to improvements in SACCOs' financial performance. Hence, this left the researcher willing to find out whether corporate governance affects the financial performance of SACCOs in Rwanda, with reference to Umurenge SACCO. The study was built on both general and specific objectives. The general objective of this study was to apprehend the effect of corporate governance in the financial performance of SACCOs in Rwanda whereas the specific objectives were; to assess the level of corporate governance practices in Umurenge SACCO, to analyze the financial performance of Umurenge SACCO in terms of liquidity, solvency and profitability and to identify the relationship between corporate governance and performance of Umurenge SACCO. In order to reach the achievement of the above objectives, a combination of questionnaires, interviews, documentary reviews and analyzing financial and other reports were used. Distribution of questionnaires was done to a group of 40 respondents who included the staffs of Umurenge SACCO, Rwamagana district. Universal sampling technique was applied in the study. Findings revealed that corporate governance practices are well supported under specific activities that are tackled both tactically and strategically which according to the findings led to better financial performance and this was represented by a mean of 4.9. Umurenge SACCOs ROA was seen raising as a result of emphasising corporate governance in the SACCO. From the chi square test analysis, the p value was found to be 0.007 which explains that there was a strong, positive monotonic correlation between corporate governance and financial performance hence, a positive impact on the financial performance of SACCOs in Rwanda. Concerning environmental scanning, this SACCO's top management should always identify strategic factors that benefit the SACCO in towards it financial performance and this will help to combat a tendency of dependence on the top management hence effective corporate governance. As a way of having better corporate strategies in the institution, all staffs are recommended to always respect the top management's recommendations and advice to all the staff. More so, the entire staff should always have an idea about what the top management has put in place.

Key words: Corporate Governance, Performance, SACCO, Rwand

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LIST OF ABBREVIATIONS, ACCRONYMS AND SIGNS

%	: Percentage
APR	: Annual Percentage Rate
FIA	: Financial Institutions Act
FIs	: Financial Institutions
MFI	: Microfinance Institutions
NBR	: National Bank of Rwanda
NGO	: Non-Governmental Organization
NPLs	: Non Performing Loans
PAR	: Portfolio at Risk
RCA	: Rwanda Cooperative Agency
ROA	: Return on Asset
ROE	: Return on Equity
RR	: Recovery Rate
SACCO	: Savings and Credit Cooperative
SPSS	: Statistical Package for Social Sciences

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CHAPTER ONE

INTRODUCTION

This Chapter presents introduction of the study beginning with a discussion about the matter of the subject while highlighting the core issues which must be explored thereafter to provide a background for its better explanation. It as well also expresses boundaries and study importance; finally it does present the key words that were used in the research report.

1.1 Background of the study

Globalization, technological advancement, changing needs of customers and competitive pressures have consistently affected businesses worldwide. This makes businesses to continue develop and invent new products and services to serve the changing demands of the target market in order to remain competitive. These inventions have put pressures on regulators everywhere in the world to construct measures that can assist them to assess the changes and develop rules that are appropriate to deal with the rapid growth and changes in products that were made available to customers through the non-traditional finance companies (Jones, 2008).

The corporate governance discipline originated in the 1950s and 1960s in most European financial companies. Among the numerous early contributors, the most influential were Peter Drucker, Philip Selznick, Alfred Chandler, Igor Ansoff, and Bruce Henderson. The discipline draws from earlier thinking and texts on strategy dating back thousands of years. Prior to 1960, the term strategy was primarily used regarding war and politics, not business. Many companies built corporate strategy functions to develop and execute the formulation and implementation processes during the 1960s (Feo et al, 2009).

Most African consumers have to calm down and wait to be wooed by companies now with new technology, mainly from the Western world and this has been very possible because of advertising with the help of technology. Companies have to creative and active on their production to meet the demand of consumers from every corner of the globe and mainly African consumers demand the more advanced products. However, competition is seen on a global scale. In today's business, companies are faced with the challenge of maintaining globally minded customers. This task of

capturing and maintaining these customers informs the need for the effective management of corporate strategy processes to meet the challenges of the increasingly globalizing world (Mahswari, 2005).

With this increasing entry of foreign bankers in Uganda and East Africa in general, there is a danger of the country becoming overbanked if many more lenders are given licenses. Industry players argue that more and more new banks coming in is neither good for investors nor the industry since it only works to the advantage of customer. Therefore, a wide range of studies have recommended that in the banking sector the corporate governance styles among the management of financial institutions to bear in mind purposefully anything concerning their future. In addition, this requires that these institutions adopt the most effective and all-embracing corporate strategy if they are to compete favorably and respond effectively to the changing market demands for financial services (Huppert, 2010).

Like many developing countries around the globe, Rwanda is among the countries that press hard in encouraging both public and private organizations such as financial institutions to improve on means of how economic resources and human resources can be effectively and efficiently managed so as to better their financial performance. However, to note is that one of the commonest means that is being used in many Rwandan institutions is to have effective top management that easily runs corporate strategies (BNR, 2012).

This study therefore aims at examining the effect of corporate governance on the financial performance of SACCOs using Umwalimu SACCO as the case study. The financial performance measures to be examined included net profit margin, return on equity (ROE), return on investment (ROI), return on assets (ROA) and bank liquidity. Practically, this research also contributes to SACCO leadership in an effort to improve risk management capabilities, corporate strategy implementation and funding decisions that improve their financial performance.

1.2. Problem Statement

In response to increasing complexity and change in the financial services industry, financial institutions have turned to corporate governance as a driver for organizational change and competitiveness. The relatively new trend towards corporate strategic planning in banking is

viewed as a move designed not only to help them negotiate their environment more effectively, but to improve their financial performance as well (Egbide, 2009). Unpredictable findings have revealed from studies that much deep in financial institutions, nevertheless, they never resolute the question on if corporate governance in financial institutions leads to improvements in SACCOs' financial performance. In one study, for instance, it was found that banks that formally engage in corporate strategic planning process tend to have significantly lower ROIs than banks that engage in the process informally (Emery et al., 2004). In contrast, Egbide (2009) attributed Bank of America's return to productivity to the bank's recognized assurance to the corporate governance strategies.

Why have the results of studies that have focused on corporate governance and financial performance relationships in financial institutions been mixed? This study therefore is intended to solve this academic gap by examining the effect of corporate governance on financial performance using Umurenge SACCO in Rwamagana district as a case study, since no academic study has yet been conducted in Rwanda on the SACCO.

1.3 Research objectives

The objectives of this study were divided into general objectives and specific objectives.

1.3.1. General objective

The general objective of the study is to apprehend the result of corporate governance on the financial performance of SACCOs in Rwanda.

1.3.2. Specific objectives

- i. To assess the level of corporate governance practices in Umurenge SACCO;
- ii. To analyze the financial performance of Umurenge SACCO in terms of liquidity, solvency and profitability;
- iii. To identify the relationship between corporate governance and financial performance of Umurenge SACCO.

1.4 Research Questions

- ❖ What is the level of corporate governance practices in Umurenge SACCO?

- ❖ What is the financial performance of Umurenge SACCO in terms of Liquidity, Solvency and Profitability?
- ❖ What is the relationship between corporate governance practices and financial performance of Umurenge SACCO?

1.5 Scope of the Study.

A study's scope includes limits or borders of the study. Thus, the following give light on the conceptual scope, time scope and geographical scope.

1.5.1. Conceptual scope

This study was restricted on the effective corporate strategy practices and financial performance of SACCOs in Rwanda.

1.5.2. Geographical scope

The research took a sample of data from Umurenge with the aim of underlying the effect of corporate governance on their financial performance and all the data was got from the respected branches located in the district of Rwamagana.

1.5.3. Time scope

This study covered a period of four years from 2013 up to 2017 this period was chosen to assess the contribution of corporate governnace on the performance of microfinance institutions particulary SACCOs in Rwanda.

1.6. Significant of the study

Basing on the context of this research, it is understood that it was useful on different levels and different perspectives which include scientific level and the social order of Rwandans not forgetting the researcher.

1.6.1. Limitations of the Study

A number of problems and limitations that were encountered during the course of this research include the following:

Financial constraints; The researcher faced a limitation of a lot of costs while preparing this study that included transportation to the field fares, internet costs, refreshments, photocopying, and stationery.

Another limitation is inadequate source of relevant literature from text books. Some respondents could be biased and suspicious to respond, which automatically might have affected the quality and quantity of data required.

Some of the respondents were usually too busy to get time to respond. Therefore, some of the respondents could fail to be available as the researcher required hence a lot of time could be wasted while waiting for them.

Time constraints, also the researcher had limited time to accomplish the whole Umurenge Saccos in the Country for example every district have Sacco which totals thirty (30) Saccos in the whole Country, and almost 416 sectors imirenge Sacco in. This was not easy to cover within given time hence forcing the researcher to use Rwamagana District as a case study

However, despite of the challenges encountered, the researcher's hard work, determination, commitment and assistance from researcher's friends permitted the successful completion of this study.

1.6.2. Personal interests

This work was conducted to fulfill requirements required for the award of a post graduate degree as MBA, an option of Finance.

Furthermore, the study helped the researcher to get knowledge related to the corporate strategy and observed how it can contribute to the performance of financial institutions in Rwanda.

1.6.3. Community and Society interest

The research clarified the contribution of corporate strategy on the financial performance of SACCOs in Rwanda and will be the reference for SACCOs' managers in order to implement or maintain the efficiency and effective corporate governance.

This particular study will assist students of UR since after the accomplishment and compilation; it will be submitted to the institution's library. Other students that would need to carry out the similar topic or domain of the study in future shall use it as a reference.

1.6.4 Umurenge SACCO

The study will assist Umurenge SACCO management and other employees who are attached to departments which have relationship with corporate strategy and financial performance.

1.7 Definitions of key terms and concepts

In this study the concepts such as a strategy, corporate strategy, financial performance, profitability, and SACCOs were considered as key ones due to their crucial importance in this work.

1.7.1 Financial performance

According to Pandey (2003), the level of performance of a business over a specified period of time, expressed in terms of overall profits and losses during that time. Evaluating the financial performance of a business allows decision-makers to judge the results of business strategies and activities in objective monetary terms.

1.7.2 Micro Finance Institutions (MFI)

Is defined as a financial institution that is authorized by the law to receive money from businesses and individuals and lend money to them. MFI are open to the public and serve individuals.

1.7.3 Corporate Governance

Is defined as a set of relationships between a company's management, its board, its shareholders and other stakeholders which provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance. It helps define the way authority is allocated and how corporate decisions are made.

1.7.4 SACCO

It is an industry which offers financial services to populations. A financial institution that provides services, such as accepting deposits, giving business loans and auto loans, mortgage lending, and basic investments in products, saving accounts and certificate of deposit. The traditional commercial bank is a brick or mortar institution with tellers, safe deposit boxes, vaults and ATMs. However, some commercial banks do not have any physical branches and require consumers to complete all transactions by phone or Internet. In exchange, they generally pay higher interest rates on investments and deposits, and charge lower fees.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter was done based on readings, and comparing reports of previous studies. It helped the researcher in appreciating, understanding and analyzing other researches done by other scholars in this particular or related area of interest.

2.1 Theoretical Review

The theories were reached through from different sources but mostly the written materials. The information helped the researcher to know much about the topic and it paved a way for a researcher to have in place his own position as far as what others wrote about is concerned. The subsections below discuss fully corporate strategy and performance of financial institutions.

2.1.1 Stakeholder theory

According to Freeman (1984), Corporate Governance is identified as the emergence of stakeholder groups as important elements to the organization requiring consideration. Freeman further suggests a re-engineering of theoretical perspectives that extends beyond the owner-manager-employee position and recognizes the numerous stakeholder groups.

Stakeholder theory offers a framework for determining the structure and operation of the firm that is cognisant of the myriad participants who seek multiple and sometimes diverging goals (Donaldson and Preston 1995). Nevertheless, Sundaram and Inkpen (2004) posit that wide-ranging definitions of the stakeholder are problematic. In addition, the authors argue that empirical evidence supporting a link between stakeholder theory and firm performance is lacking. Finally, identifying a myriad of stakeholders and their core values is an unrealistic task for managers (Sundaram and Inkpen, 2004).

2.1.2 Stewardship theory

Whereas agency theorists view executives and directors as self-serving and opportunistic,

stewardship theorists, reject agency assumptions, suggesting that directors frequently have interests that are consistent with those of shareholders. Donaldson et al (1991) suggest an alternative “model of man” where “organizational role-holders are conceived as being motivated by a need to achieve and gain intrinsic satisfaction through successfully performing inherently challenging work, to exercise responsibility and authority, and thereby to gain recognition from peers and bosses. They observed that where managers have served a corporation for a number of years, there is a merging of individual ego and the corporation.

Managers may also carry out their role from a sense of duty. Citing the work of Silverman (1970), Donaldson and Davis argued that personal perception motivates individual calculative action by managers, thus linking individual self-esteem with corporate prestige. Davis, Schoorman and Donaldson, (1997) argued that a psychological and situational review of the theory is required to fully understand the premise of stewardship theory. Stewardship theory holds that there is no inherent, general problem of executive motivation (Cullen et al (2006). This would suggest that extrinsic incentive contracts are less important where managers gain intrinsic satisfaction from performing their duties. A steward protects and maximizes shareholders wealth through firm performance, because, by so doing, the steward’s utility functions are maximized (Davis Schoorman et al (1970).

The stewardship perspective suggests that the attainment of organizational success also satisfies the personal needs of the steward. The steward identifies greater utility accruing from satisfying organizational goals than through self-serving behavior. Stewardship theory recognizes the importance of structures that empower the steward, offering maximum autonomy built upon trust. This minimizes the cost of mechanisms aimed at monitoring and controlling behaviour.

2.2 Conceptual Review

According to Wheelen and Hunger (2010) corporate governance can be designed basing on the local business environment (Local/domestic strategy) as well as the global business environment (international strategy). Strategy can be divided into four types and companies should use them simultaneously. These include corporate strategy, business strategy, functional strategy and international strategy. There is a hierarchy of strategy (for the first three strategies) which is a nesting of one strategy within another so that they complement and support one another while

international strategy can be infused across all the three stages when the organization is multinational. The details of various classes of strategy are explained in figure.

According to Dess and Miller (1993), corporate strategy is the first hierarchy of strategy and it describes a company's overall direction in light of its general attitude towards growth and the management of its various businesses and product lines. The second hierarchy is business strategy. The business strategy usually happens at the business unit or product level and it emphasizes improvement of the competitiveness, positions of a corporate products or services in the specific field or market segment served by that business unit (Dess and Miller, 1993).

2.2.1 Corporate Governannce practices

Corporate governance is concerned with formulating organizational corporate strategies. Poister (2010) argues that corporate strategy takes a "big picture" approach that incorporates futuristic thinking, objective analysis, and subjective evaluation of values, goals, and priorities to chart a future direction and courses of action to ensure an organization's vitality, effectiveness, and ability to add public value.

2.2.1.1 Shareholders Assembly

A study by Tripa (2007) stresses that regardless of the size, the scale, every organization needs to adopt a well-planned strategic management to survive and compete in the market and try to optimize for the future following the current trend.

After having an overview of corporate strategy, it is necessary to figure out the process of formulating the strategy. Wheelen and Hunger (2006) point out corporate strategy consists of four basic elements which include environmental scanning, strategy formulation, strategy implementation and strategy evaluation.

2.2.1.2 Supervisory Board

Wheelen and Hunger (2006) supervisor board is entitled to carryout environmental scanning such as the monitoring, evaluating and disseminating of information from the external and internal environments to key people within a company. Its purpose is to identify strategic factors - through scanning the environment which contains external and internal elements. As there are many variables in the environment scanning, such as socio-cultural forces, economic forces, political

legal forces, technological forces, it helps to make a comprehensive strategy by taking these elements into consideration.

In a study conducted by Jobber (1995), SWOT (strengths, weaknesses, opportunities and threats) analysis is an analysis of a company's advantages, shortcomings, favorable factors and clubs external. It is the most common ways in the strategic management. A good SWOT analysis can help a company to understand its competitive advantage better and it is an important guideline for making a proper marketing strategy plan. The strengths and weakness belong to the internal origin of a company while opportunities and threats are analyzed from the external environment. All in all, environmental scanning (strategic analysis) provides the basis for formulating strategy on each of four possible levels: functional, business, corporate and international.

2.2.1.3 Management Board

Henry (2008) states that unless key individuals and groups, within and outside the organization, accept the rationale for strategic change, any proposed implementation will be sub-optimal. This means that during plan design, the real staff responsible for the implementation of that plan should be brought on board to have their inputs in the plan. The boards of directors provide governance, guidance and oversight. They have major role in defining what expecting in integrity and ethical values and can confirm its expectations through its oversight. Activities that play a role in high are the level objective setting and strategic planning by reserving authority in certain key decision. Effective board members are objective, capable and inquisitive and environment needs to commit the time necessary to fulfill their board responsibilities (Dave, 2000).

To Pandey (2005), a strong active board particularly when coupled with effective upward communication channels and capable financial, legal and internal audit functions is often best able to identify and correct such a problem.

According to Dave (2000), external auditors play an important role in evaluating the effectiveness of the entire auditing that has been done internally and thus contribute to ongoing efficiency and effectiveness. Because of organization position, authority in an entity and the objectivity which it carries its activities an internal role in effective internal control. External auditor plays an important role in contributing to achievement of the entity's financial reporting objectives as the independent certified public accountants. Internal and external auditors provide information that is extremely

important to an entity in achieving its operations, financial reporting and compliance objectives.

2.2.2 Financial performance

According to Pandey (2005), the level of financial performance of an institution over a specified period of time, expressed in terms of overall profits and losses during that time. Evaluating the financial performance of a business allows decision-makers to judge the results of business strategies and activities in objective monetary terms.

Institutions use financial-performance tools to determine whether operating strategies are working. Corporate leadership relies on them to project financial success and cushion the effect of flows in previously issued operating forecasts (Denis, 2000). By comparing prior data with current information, management can detect errors and adjust present-period performance data based on economic conditions and the competitive landscape. Financial tools include accounting reports and performance metrics.

According to Harper (2009), furthermore, the analyst or investor may wish to look deeper into financial statements and seek out margin growth rates or any declining debt. There are many different ways to measure financial performance, but all measures should be taken in aggregation. Line items such as revenue from operations, operating income or cash flow from operations can be used, as well as total unit sales. Furthermore, the analyst or investor may wish to look deeper into financial statements and seek out margin growth rates or any declining debt.

2.2.2.1 Profitability

Graham (2005) stated that profitability ratios measure a company's ability to generate earnings relative to sales, assets and equity. These ratios assess the ability of a company to generate earnings, profits and cash flows relative to relative to some metric, often the amount of money invested. They highlight how effectively the profitability of a company is being managed.

For most of these ratios, a higher value is desirable. A higher value means that the company is doing well and it is good at generating profits, revenues and cash flows. Profitability ratios are of little value in isolation. They give meaningful information only when they are analyzed in comparison to competitors or compared to the ratios in previous periods. Therefore, trend analysis and industry analysis is required to draw meaningful conclusions about the profitability of a company (Gareth, 2003).

According to Campbell (1995), some background knowledge of the nature of business of a company is necessary when analyzing profitability ratios. For example sales of some businesses are seasonal and they experience seasonality in their operations. The retail industry is example of such businesses. The revenues of retail industry are usually very high in the fourth quarter due to Christmas. Therefore, it will not be useful to compare the profitability ratios of this quarter with the profitability ratios of earlier quarters. For meaningful conclusions, the profitability ratios of this quarter should be compared to the profitability ratios of similar quarters in the previous years.

Return on asset (ROA)

According to Gill (2010), the return on assets is useful in measuring profits against the assets used by a company for generating profits. The ratio is an important indicator of the intensity of assets of a company. A lower ROA ratio reflects a higher asset-intensity of the company, and vice versa. Besides, a more asset-intensive company requires a larger amount of money to continue producing revenue.

$$\text{ROA} = \text{Net Income} / \text{Total Assets}$$

Return on equity (ROE)

The return on average equity is a financial ratio that measures the profitability of a company in relation to the average shareholders' equity. This financial metric is expressed in the form of a percentage which is equal to net income after tax divided by the average shareholders' equity for a specific period of time (Gill, 2010).

$$\text{ROE} = \text{Net Income} / \text{Stockholders' Equity}$$

Net Interest Margin

The use of net interest margin is helpful in tracking the profitability of a bank's investing and lending activities over a specific course of time. Besides, a period end balance sheet, average balance sheet published by the banks indicating the breakdown of bank's loans, deposits, investments, and borrowed funds, and their related interest rates provides more insight to investors seeking for more info on the fluctuation of Net Interest Margin (Henry et al, 2010).

The Net Interest Margin is calculated as:

$$\text{Net Interest Margin} = (\text{Investment Returns} - \text{Interest Expenses}) / \text{Average Earning Asset}$$

2.2.2.2 Liquidity

As for Huppert (2010), liquidity ratios are the ratios that measure the ability of a company to meet its short term debt obligations. These ratios measure the ability of a company to pay off its short-term liabilities when they fall due. The liquidity ratios are a result of dividing cash and other liquid assets by the short term borrowings and current liabilities. They show the number of times the short term debt obligations are covered by the cash and liquid assets. If the value is greater than 1, it means the short term obligations are fully covered.

Generally, the higher the liquidity ratios are, the higher the margin of safety that the company possess to meet its current liabilities. Liquidity ratios greater than 1 indicate that the company is in good financial health and it is less likely fall into financial difficulties. Most common examples of liquidity ratios include current ratio, acid test ratio (also known as quick ratio), cash ratio and working capital ratio. Different assets are considered to be relevant by different analysts. Some analysts consider only the cash and cash equivalents as relevant assets because they are most likely to be used to meet short term liabilities in an emergency. Some analysts consider the debtors and trade receivables as relevant assets in addition to cash and cash equivalents (Morgan, 2003).

A company must possess the ability to release cash from cash cycle to meet its financial obligations when the creditors seek payment. In other words, a company should possess the ability to translate its short term assets into cash. The liquidity ratios attempt to measure this ability of a company (Chisolm, 2009).

Liquidity Ratios

Net Loan/Total Assets (NLTA), Liquid Assets/Total Assets (LATA) and Gross Loan/Total Assets (GLTA)

2.2.2.3 Efficiency

According to Betty (2004), efficiency ratios also called activity ratios measure how well companies utilize their assets to generate income. Efficiency ratios often look at the time it takes companies to collect cash from customer or the time it takes companies to convert inventory into cash in other words, make sales. These ratios are used by management to help improve the

company as well as outside investors and creditors looking at the operations of profitability of the company.

Efficiency ratios go hand in hand with profitability ratios. Most often when companies are efficient with their resources, they become profitable. Wal-Mart is a good example. Wal-Mart is extremely good at selling low margin products at high volumes. In other words, they are efficient at turning their assets. Even though they don't make much profit per sale, they make a ton of sales (Barbra, 2006).

Efficiency Ratios

Cost/Income Ratio, Cost/Average Asset and Net Income/Total Operating Income

2.2.2.4 Solvency

Total debt-to-asset ratios tend to be higher for larger firms and for firms that specialize in livestock feeding. Ratios of 10 to 30 percent are common among many American firms, although many operate with little or no debt. A high debt load does not make firms less efficient, but principal and interest payments eat into cash flow. High efficiency firms are able to service a higher debt load safely. Two other ratios are commonly used to measure solvency. The equity-to-asset ratio shows how many dollars of net worth a firm has for every dollar of assets. It is equal to 100 percent minus the debt-to-asset ratio. Higher equity-to-asset ratios indicate a less risky financial situation. Some lenders prefer to use the debt-to-equity ratio to measure solvency. Higher ratios indicate more risk (Cameron, 2004). According to Denis (2000), there are two influential ratios that are used to measure solvency of businesses; *Debt-to-Asset Ratio* (DAR) and *Equity-to-Asset Ratios* (EAR).

Interest cover

This is the operating profit (profit before finance charges and tax) divided by the finance cost.

$$\text{Interest Cover} = \frac{\text{Operating Profit}}{\text{Finance Cost}}$$

A decrease in the interest cover indicates that the company is facing an increased risk of not being able to meet its finance payments as they fall due. The ratio could be improved by taking steps to

increase the operating profit, e.g. through better management of costs, or by reducing finance costs through reducing the level of debt (Storey, 1995).

According to Storey (1995), investors will be interested in all of the above measures of liquidity, along with the following since they help them to know much about their vulnerability of their companies' liquidity.

Earnings per Share (EPS)

EPS is a measure of the profit attributable to each ordinary share.

$$\text{EPS} = \frac{\text{Profit After Tax less Preference Dividends}}{\text{Weighted Average number of Ordinary Shares in Issue}}$$

For EPS to be truly meaningful, it must be set in context. Is EPS growing or declining over time? Is there likely to be significant dilution of EPS? Is it calculated consistently?

Dividend cover

This is the net profit divided by the dividend.

$$\text{Dividend Cover} = \frac{\text{Net Profit}}{\text{Dividend}}$$

A decrease in the dividend cover indicates that the company is facing an increased risk of not being able to make its dividend payments to shareholders (Stoner, 2003).

Dividend yield

Dividend yield = (Dividend per share/Current share price) × 100%.

This is one way of measuring the return to shareholders but ignores any capital growth / loss.

Earnings yield

Earnings yield = (EPS/Share price) × 100%. This is another one way of measuring the return to shareholders but, as with dividend yield, ignores any capital growth / loss (Khan, 1998).

2.2.3 Role of Corporate Governance in SACCO financial performance

The controlling concept of this research to come out on what criterion intervenes between the SACCO's corporate strategic process and financial performance.

2.2.3.1 Strategic management

The strategic management literature implies that there is a positive association between corporate strategy and company performance, with directional causality from strategic planning to performance (Greenley, 1994). Greenley provides two benefits of why companies feel that strategic planning is so important. First, it improves the financial performance of organisations. The standard theory of strategic management focuses on the achievement of goals, of which company performance is also included, the application of strategies to accomplish these goals, and ensure that the goals of the companies are attained in due time. Also it improves the effectiveness of company's administration within an institution which contributes to the development of the firm's achievements.

According Greenley (1986) raised a number of benefits that can be achieved through strategic planning. It is competent procedure of company's administration without considering the performance to be achieved. In spite of this, Greenley (1994) reacted that it can be easily turned to achievements by indicating that the whole focus of management involves the achievements of goals, hence affecting positively the long run improvements of targeted goals.

Egbide (2009) identified that it is a method used for management of environmental agitations, which has been implemented by a huge number of companies. Also it's an ongoing company's strategies, with many elements composing of setting up of objectives, monitoring and evaluation of procedures. A successful strategic planning process will connect number of a wide-range of strategic objectives with both mid-range and operational plans. Planners collect data, forecast, and model construct alternative future scenarios. These undertakings should facilitate the companies to outcompete other firms.

2.2.3.2 Resource allocation

According Capon, et al. (1994) the higher the degree of sophistication of the planning process, the

better the achievements. He urged that, strategic planners should achieve better than financial planners because they target on transformation of the environment hence thinking on strategic issues and resource allocation priorities. This implementation should contribute to the better identification of opportunities and threats, and appropriate firm's performance.

According to Boyd (1991) identified that after decades of research, the effect of strategic planning on a firm's financial achievements is still inappropriate. Whilesome researchers realizes the advantage of planning, while as others no relationship. The effects existed as results of appearmixed, hence variations of perspectives on the planning processes of company's management (Veliyath and Shortell, 1993).

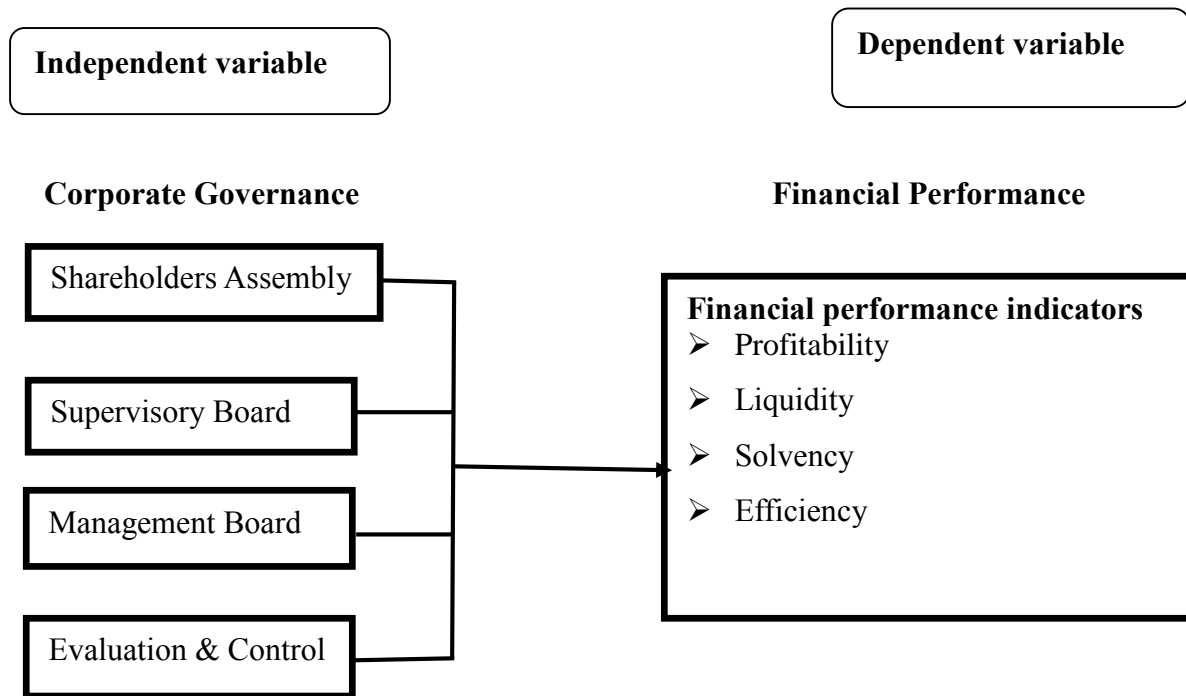
However, more recent studies Egbide (2009), the accomplishment of the poverty-related Millennium Development objectives by the sub-Saharan African countries demands, in most instances, sustained annual growth rates of around 5 per cent from today until 2015. This is a formidable goal that has successfully been met in the recent past only by a handful of countries, such as China, Republic of Korea, India, Sri Lanka, Thailand, Indonesia, Malaysia and Mauritius. One of the common traits of these recent risers is that their initial high growth stages were accompanied by a rather fast industrialization of employment and output. The development of the textile and apparel industries, and the international specialization in these activities, often played a key role in these initial stages of growth in these countries.

This naturally leads to the question of how big the contribution of an outward-oriented development of the textile and apparel sectors to industrialization and growth can be, and what the pitfalls and opportunities that lie ahead for such a strategy are. It is important to keep in mind that the potential aggregate impact of this strategy is conditioned by the fact the apparel industry in 2007 represented relatively small shares of manufacturing employment and output, albeit representing a more important proportion of all manufacturing exports. Such an industrial development strategy faces two big opportunities and two potentially big hazards. As the deployment takes the form of "slicing up" of industry and firm value chains and their location across borders for manufacturing goods in different stages at different locations which add value at each state (Dieter Ernst 2016).

2.2.4 Conceptual Framework

Colander (2013), lamented that a conceptual framework is a tool with many changes and contexts. It can be used in different categories of work. In other words, it represents and is linked to the research objectives which provides guidelines to the collection of data and how to utilise such data. The independent variable consists of corporate governance channels while the dependent variable is about financial performance indicators.

Figure 1: Conceptual framework



Source: Researcher (2018)

2.3 Empirical Review

Basing on the studies that have since been done in United States of America, Nelly & Phillip (2011) about the Impact of corporate governance on organization's financial performance; concluded that corporate governance should be an autonomous, neutral assurance and referring activity designed to add value and improve an organization's operations. It helps a financial institution to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management control and governance processes". He further mentions the principles of corporate governance contain; Truthfulness, Impartiality, Concealment and Proficiency. He adds that effective corporate governance should be carried out by self-governing

employees though they are employees appointed by administration, for them to work professionally, they should have scope to arrange priorities and activities have unrestricted access to records, assets and workers.

In the study about the Role of corporate governance to the effectiveness of financial institutions conducted in India, Everhart (2009) underlined that corporate governance helps to review the operations and records sometimes undertaken within the business by especially assigned staff. It's also an independent appraisal function established within an institution to examine and evaluate the effectiveness, efficiency and economy of management's audits. Its objective is to provide management with re-assurance that their internal operations are adequate for the need of an institution to operate satisfactorily. He adds that it is set-up by management of an enterprise to examine, evaluate and report operations of accounting and other controls.

South American writers named Ray and Kurt (2013) in their study titled the Effect of corporate governance on the financial performance of companies; revealed that supportive corporate governance processes characterized by formalized integrity and clear ethical values, a high level of risk control awareness, the perception that risk management is important and the fact that responsibilities with respect to risk management are clearly defined with a relatively larger auditing processes. There must be a strong internal control system and the internal auditor to verify the operations of the system in much the same way, as the external auditor. It should involve the investigation, recording, identification and review of compliance tests of control, they also argued that effective internal control procedures provide sufficient relevant and reliable evidence in order to detect and prevent fraud.

Based on a research report compiled by Chisholm (2009) in Brazil, any government or corporation mainly financial institutions requires corporate strategy to manage its operations and to engage in its own long-term investments. To do this, an institution raises money through the sale of securities stocks and bonds in the company's name. In case of common stock the transfer results in ownership and in case of debt there is a contractual obligation to pay interest rate and debt. The advantage of investing in corporate strategy is the price of the securities fluctuates in response to change in supply and demand and can be bought and sold to third parties. As a result, the customers of a

financial institution increase following the good returns they tend to expect hence expanding customer base of an organization.

2.4 Research Gap Analysis

Increasing competitive capabilities and creating new capabilities is an excellent implementation of corporate strategy and diversification growth strategy. David (2009) opines that a bank with a planning system which adopts corporate strategic management theory exhibits better long-term financial performance than those where corporate strategy is non-existent. This opinion states that the firms' corporate strategy is one determinants of financial performance.

A number of studies on the relationship between corporate strategy and financial performance (Al-Shammari & Hussein, 2007; Hopkins & Hopkins, 1997; Jemison, 1987; Su & Hong, 2010) have been conducted and found a positive effect of corporate strategies on financial performance. However, a study by Cathoth and Michael (2007) showed that growth strategy does not determine financial performance. Studies relationship corporate strategy on capital structure of (Baral, 2004; Barthon & Gordon, 1988; Crnigoj & Mramor, 2009; Darwin & Aquino, 2009) found growth strategy has a positive effect on capital structure. A study by Lowe, Noughton and Taylor, P. (1994) showed that corporate growth strategies have negative effect on capital structure.

Inconsistent results of previous studies indicate a research gap. This makes opportunity to conduct further studies on the impact of corporate strategy on the financial performance of SACCOs. This study will be conducted to explain the inconsistent results.

CHAPTER THREE

RESEARCH METHODOLOGY

This chapter explains the way the researcher collected data from the field. It explains in details the methodological aspects to complete this research work taking Umurenge SACCO as a case study. The main items dealt with include research design, sources of data, the general presentation of the case study, techniques of data collection, methodology, and processing and study limitation.

3.1 Research design

Grinnell and William (2009) explained research design as a framework that has been created to find answers to the research questions under the study. It's a method used for gathering and analysing collected information so as to get the accurate data collected. This study used descriptive and correlation research methods in that descriptive statistics was implemented to analyze collected information from questionnaires and interview guide.

3.2 Population

Population according to Henry (2008) it's combination of people where the researcher base on depending on geographical conditions of the study. Therefore, the target population in as far as Savings and Credit Cooperative Societies is composed of the management and staff of the Umurenge SACCOs operating in Rwamagana district. They totaled to 100 population or less including staff of Rwanda Cooperative Agency (RCA), as it was revealed by the human resource manager.

3.3 Sample size

Cramer and Howitt (2004) define a sample as a set of entities drawn from a population with the aim of estimating characteristics of the population. Cramer and Howitt (2004) further define a sample size as the number of cases or entities in the sample studied. They suggested that the question of an appropriate sample size is a complex issue which depends on many factors. One significant factor is the researchers' expectations of the trend of responses.

According to Robert and Groves (1971), in a case where a study total population is 100 or less, the researcher can as well go ahead to use the whole study population. Therefore, this study used all the total population of 40 Umurenge SACCOs employees in Rwamagana district as the sample

size because the researcher found it possible to involve all of them due to the fact that they were less and manageable number.

3.4 Sampling techniques

After selecting the respondents, the researcher used universal sampling. According to Richard & Margaret (1990), universal sampling refers to the selection of the samples where all the people in the population have the same probability of being included in the sample. The researcher therefore prefers using universal sampling technique because the population size was enough to be involved altogether.

Table 1: Population composition

Population Category	Population	Population (%)	Sampling technique
Internal audit & IT	06	15.0	Universal sampling
Finance and operations	20	50.0	
Top management	14	35.0	
Total	40	100	

Source: Researcher (2018)

3.5 Sources of data

Pannerlvan (2005), collected information are essential factor for decision making within an organisation. The progresing of collected information provides statistics that are vital for the research. In this research, all primary and secondary collected information were applied.

3.5.1 Primary data

Avdrey (2007) says that primary data comes straight from the people a researcher is researching from and is therefore the most kind of information a researcher can collect. The primary data is said to be the first hand observation. In this research, the primary data composed of information from questionnaires and interviews that was held with the selected respondents.

3.5.2 Secondary data

Secondary data is usually extracted from the original data and often the examination of the study same one else has carried out on a subject or an evaluation of commentary or summary of primary

material (Avdrey, 2007). The secondary data of this research was extracted from different text books, reports and other previous research documents in the same field.

3.6 Data collection techniques

There are several ways of collecting information. Techniques used for gathering information were prominently and substantially by research set goals, methods, procedures, time, funds plus personnel. Three techniques were used in the study and they include; questionnaire, interview and documentary review.

3.6.1 Questionnaire

A questionnaire is a research instrument consisting of a series of questions and other prompts for purpose of gathering information from respondent (Grinnell and William, 2009). While collecting primary research data, the researcher involved questionnaires that are designed in accordance with study objectives. Likert scale is the kind of questionnaire that the researcher used.

3.6.2 Interview

An interview is a conversation between two people (the interviewer and the interviewee) where questions are asked by the interviewer to obtain information from the interviewee (Naale et al, 2006). This particular technique of collecting information was used for cases where some respondents could be caught up by time due to a congested schedule. The interview guide which involved non structured questions was addressed to the head of coporatives at Rwanda Cooperative Agency (RCA) located in Nyarugenge.

3.6.3 Documentary review

Documentary review is the use of outside sources, documents, to support the viewpoint or argument of an academic work. The process of documentary research often involves some or all of conceptualizing, using and assessing documents. The analysis of the documents in documentary research would be either quantitative or qualitative analysis (or both). The key issues surrounding types of documents and our ability to use them as reliable sources of evidence on the social world must be considered by all who use documents in their research (Grinnell and William, 2009). The researcher used this technique to analyze financial reports and other documents that were involved

in this study.

3.7 Data Processing and Analysis

This sub section so important as in making the analysis of the results collected from the field and it includes data processing and data analysis.

3.7.1 Data Processing

After gathering data, the researcher persisted to proceed, analyze and understand the data. The researcher had to be attentive and ensure that real information are collected otherwise all his energy would end up in vain if the data are not properly gathered and analyzed, hence these duties were done during the process of data collections.

Data editing is the process of verifying ,and identifying errors on gathered information and confirming that the real corrections are done. This is so important to the researcher especially when there are inappropriate responses that will be entered in the questionnaires or when contains only unclear responses (Paxton, 2002). The researcher adjusted the responses himself after gathering the filled questionnaires and having carried out an interview with already stated people. Also by modifying the data, the researcher managed to remove errors in the filled questionnaires and confirm answers are correct and consistent.

Again through editing, the researcher was able to deduce from answers given to see whether all questions are uniformly interpreted according to transactions. Editing also helped to check completeness of the questionnaires, that is to say it was used to answer that all the applicable questions are answered and where errors and omissions are encountered, the researcher tried to fill it with the correct answers by the inference from answers given to other questions in the same questionnaire.

Besides, the procedure for data editing, the researcher used another stage called coding. The researcher had to exercise the coding systems by use of his own code levels based on her research questions and responses. Also he organised a code sheet by putting down all the replies that are a bit uniform for open questions and gives those codes. For pre-coded questions, the relevant code categories were considered.

This procedure was repeated on each question as interview guides, codes established were as exhaustive as possible and included vital responses. The coding system used fitted the respondents subject of the research as well as the goals of the research. The researcher took time to cross checked well such that he can identify any error and remove ambiguous or inappropriate issues.

3.7.2 Data analysis

The researcher used the Statistical Package for Social Sciences (SPSS) version 22 in coming up with the statistical analysis for the study. Naale et al. (2006) urged that SPSS is one of the most widely used available and powerful statistical software packages that covers a broad range of statistical procedures, which allows a researcher to summarize data (e.g. compute means and standard deviations), determine whether there are significant differences between groups, examine relationships among variables, and graph results.

Therefore, after obtaining information which the researcher felt so necessary and enough for preparation of research report, he employed qualitative data analysis which is used to analyze data obtained from the field by the researcher. With the help of SPSS, the researcher applied descriptive statistics. The researcher was also interested on identifying the effects of corporate governance on financial performance of Umurenge SACCO using Chi Square analysis.

Description of Descriptive statistics

$1.0 \leq \mu \leq 1.8$: Very low mean i.e the fact is not apparent

$1.9 \leq \mu \leq 2.6$: Low mean i.e the fact appears less

$2.7 \leq \mu \leq 3.4$: Neutrality

$3.5 \leq \mu \leq 4.2$: High mean i.e the fact appears more

$4.3 \leq \mu \leq 5.0$: Very high mean i.e strong evidence of the existence of the fact

$\sigma \leq 0.5$ i.e homogeneity of responses

$\sigma > 0.5$ i.e heterogeneity of responses

CHAPTER FOUR

ANALYSIS AND INTERPRETATION

4.0 Introduction

In the presentation of study results, analysis and interpretation, data were analysed with the help of SPSS to realize the study's objectives which include: to assess the level of corporate governance practices in Umurenge SACCO; to analyze the financial performance of Umurenge SACCO in terms of Liquidity, Solvency and Profitability and to identify the relationship between corporate governance and financial performance of Umurenge SACCO. Responses were collected from a sample of 40 Umurenge SACCO employees based in Rwamagana.

4.1 Identification of the respondents

For this research, personal identification such as areas of responsibility, age, gender, education level, and working experience was considered.

4.1.1 Area of responsibility

This study's respondents were also tasked to identify their departments or the areas of their responsibilities. For this case, respondents were given options of finance, internal audit and operations. The findings were presented in the following table.

Table 2: Distribution of respondents by areas of responsibility

Areas of responsibility	Frequency	Percentage
Internal audit & IT	06	15.0
Finance and operations	20	50.0
Top management	14	35.0
Total	40	100.0

Source: Primary data (2018)

In table 2, respondents were asked to provide the information about their areas of responsibility in order to ensure that reliable information is collected. It was found out that 15.0% was from Internal audit & IT, 50.0% was from finance and operations and 35.0% was top management. As indicated,

the respondents emanated from areas related to the issues of corporate affairs and financial performance and this evidences that the right position of the respondents where information was collected.

4.1.2 Age

The researcher enquired from the respondents to accurately provide the information about their age groups. The results got from the respondents were presented in the table as shown below.

Table 3: Distribution of respondents by age

Age of respondents	Frequency	Percentage
Between 20 and 30 years old	08	20.0
Between 31 and 40 years old	15	37.5
Between 41 and 50 years old	13	32.5
Above 51 years old	04	10.0
Total	40	100.0

Source: Primary data (2018)

From table 3, it is clearly indicated that a very large number of the respondents that was represented by 37.5% were those that are ranging from the age of 31 and 40. This revealed that the research involved people that were mature enough to provide unbiased information. Also this age group is followed by 20-30, 41-50 and those above 51 with 20.3%, 32.5% and 10.0%, respectively.

These findings left the researcher with the knowledge about the competence of her research outcomes since the study involved mature respondents who are mostly respected as far as providing the trusted information is concerned hence unbiased findings. On the other hand, the findings are in line with what Saunders et al. (2009) urged about, they noted that a research becomes more trusted unlike otherwise when the contacted respondents are of different classes such as marital status, religion, age and education.

4.1.3 Gender

The researcher tasked the respondents to state accurate information about their gender. All respondents were asked about their gender and the figures are shown below in the table.

Table 4: Distribution of respondents by gender

Respondents by gender	Frequency	Percentage
Male	23	57.5
Female	17	42.5
Total	40	100.0

Source: Primary data (2018)

Table 4 indicates that 57.5% of the respondents were males and 42.5% were females. The researcher clearly observed from the findings that the number of male staff members is more than the number of female staff members in Umurenge SACCO. Therefore, Umurenge SACCO in Rwamagana district is incompetent as far as gender balance is concerned since the females are less than males. And according to the findings, the SACCO contradicts the government's policy of promoting the females hence it should look into it.

However, the findings are in line with what was stated by Garry et al (2003), who lamented that mostly in financial institutions, it is the male employees who dominate due to the fact that they are usually taken to be better as far as making decisions is concerned other than their counterparts, females.

4.1.4 Educational level

The education levels of respondents were also considered in this study to help the researcher identify the capacities to study their respective activities. The following table presents the data collected from the respondents.

Table 5: Distribution of respondents by education level

Education level	Frequency	Percentage
Masters	1	2.5
Degree	26	65.5
Professional certificates	13	32.5
Total	40	100.0

Source: Primary data (2018)

By asking this question, the researcher wanted to know the education level of the respondents and

the results as indicated in table 5, it is clear that 2.5%, 65.5% and 32.5% are for the respondents who had master, bachelors and professional certificates respectively. This shows that Umurenge SACCO employs the intellects and only those that have sufficient qualification which is helpful in accomplishing their routine work. And when interviewed, soem respondents, those who had professional certificates revealed that they were pursuing a bachelor degree from different universities. However, the researcher learnt that the SACCO had fewer employees with masters than those with undergraduate.

4.1.5 Respondents' working experience

All respondents in the sample were asked the period of time they have been in the workign arena as presented in the table below. The data was described in form of percentage in the table and was later fully discussed under the table as indicated here below.

Table 6: Distribution of respondents by working experience

Working experience	Frequency	Percentage
Less than one year	1	2.5
1 to 2 years	4	10.0
3 to 4 years	8	20.0
5 to 6 years	16	40.0
7 and above	11	27.5
Total	40	100.0

Source: Primary data (2018)

Table six shows that out of 40 respondents, only 1 respondent which is 2.5% of the total respondents has been working with Umurenge SACCO in the period of less than one year, 4 respondents equal to 10.0% of the total respondents indicated that they have been employed by Umurenge SACCO for the period between 1 and 2 years and the 8 respondents have working experience of between 3 and 4 years with 20.0%. The remaining respondents corresponding to 40.0% of the total respondents of 40 have worked at the Umurenge SACCO between 5 and 6 years. Finally, those that had worked for the SACCO from 7 and above were represented by 27.5%. From the above findings, it is clear that Umurenge SACCO used to keep employing its employees for many years and this helped to know the procedure Umurenge SACCO uses to reach higher

experienced working and easily to achieve its set goals and objectives.

4.2 Practices of corporate governance in Umurenge SACCO

This sub section intends to make a full study of the practices that Umurenge SACCO get involved to enforce corporate strategy. The practices include environmental scanning, strategy formulation, strategy implementation, evaluation and control. The findings were presented in tables in form of percentages below.

4.2.1 Environmental scanning

According to Thomas Edison (State University) Environmental scanning is the process of gathering information about events and their relationships within an organization's internal and external environments. The internal environment here are staffs of an organizations while external environment include the suppliers, customers, competitors of organizations. The basic purpose of environmental scanning is to help management determine the future direction of the organization. This sub section indicates the respondents' level of appreciation on corporate strategy environmental scanning in Umurenge SACCO and the results are clearly explained in the table whereby they are in form of percentages whereas explanations are under the table.

Table 7: Respondents' level of agreement on environmental scanning

Practices of environmental scanning	Strongly Agree		Agree		Undecided		Disagree		Strongly Disagree		Total		Mean
	F	%	F	%	F	%	F	%	F	%	F	%	
SACCO evaluates and disseminates most of the information in time	17	42.5	23	57.5	0	0	0	0	0	0	40	100	4.45
The top management makes a proper marketing strategy plan	8	20.0	15	37.5	10	25.0	7	17.5	0	0	40	100	4.80
SACCO management analyses the institution's advantages and shortcomings	18	45.0	20	50.0	2	5.0	0	0	0	0	40	100	4.57
The SACCO's top management identifies strategic factors	12	30.0	23	57.5	5	12.5	0	0	0	0	40	100	3.91
Scanning environment	16	40.0	24	60.0	0	0	0	0	0	0	40	100	4.45

provides the basis for formulating strategy	
Average Mean	4.45

Source: Primary data (2018)

For this question, the researcher intended to assess the appreciation level of respondents on corporate governance in Umurenge SACCOs operating in Rwamagana district in particular the institution’s environmental scanning practices. As indicated in table 7, among all the statements provided only on three issues respondents were undecided and the rest agreed and strongly agreed. The issues included SACCO evaluates and disseminates most of the information in time, The SACCO’s top management identifies strategic factors, SACCO management analyses the institution’s advantages and shortcomings, the top management makes a proper marketing strategy plan, scanning environment provides the basis for formulating strategy. However, based on the statement which was disagreed at 17.5%, to the researcher is enough to understand that the SACCO is weak in sensitizing the citizens to embrace the SACCO services.

From the above table, results are presented in terms of mean and it indicates an average mean of 4.45 which shows very high mean and explains that there is strong evidence of the existence of the fact amongst the respective facts about corporate governance in Umurenge SACCO. According to the description of descriptive statistics indicated in chapter three, a mean which is between $3.5 \leq \mu \leq 4.29$ indicates that the fact appears more in the results.

Findings were also supported by Wheelen and Hunger (2006) who stated that environmental scanning includes the monitoring, evaluating and disseminating of information from the external and internal environments to key people within a company. Its purpose is to identify strategic factors - through scanning the environment which contains external and internal elements.

4.2.2 Strategy formulation

This sub section discusses the respondents’ level of appreciation on strategy formulation and the results are clearly indicated in the table whereby the findings are in the table.

Table 8: Respondents' level of agreement on strategy formulation

Practices of strategy formulation	Strongly Agree		Agree		Undecided		Disagree		Strongly Disagree		Total		Mean
	F	%	F	%	F	%	F	%	F	%	F	%	
	SACCO identifies past organizational achievements	19	47.5	21	52.7	0	0	0	0	0	0	40	
SACCO identifies the nature of the environment	14	35.0	24	60.0	2	5.0	0	0	0	0	40	100	4.62
SACCO outlines the organization's present strengths and weaknesses	27	67.5	11	27.5	2	5.0	0	0	0	0	40	100	4.97
SACCO management identifies a chosen direction	12	30.0	6	15.0	19	47.5	3	7.5	0	0	40	100	4.07
SACCO chooses a strategic plan to take the organization	19	47.5	21	52.5	0	0	0	0	0	0	40	100	4.10
SACCO monitors the progress of the strategy for adjustments	16	40.0	21	52.7	3	7.5	0	0	0	0	40	100	4.62
Average mean												4.41	

Source: Primary data (2018)

In this table, the researcher wanted to understand whether the corporate governance in Umurenge SACCO is in a better position as a kind of having contributed to its financial performance. Data gathered revealed that in most issues tackled, most of the respondents strongly agreed and agreed on the preset statements such as; SACCO monitors the progress of that strategy and make adjustments, SACCO chooses a strategic plan to take the organization, the SACCO management identifies a chosen direction, SACCO outlines the organization's current strengths and weaknesses, the SACCO identifies the nature of the environment, SACCO identifies past organizational achievements.

A mean of 4.41 shows that SACCO management and staff set the the required strategy formulation while dealing with corporate governance. The findings in terms of mean indicate a strong evidence of the existence of the facts hence strategies at Umurenge SACCO in Rwamagana district are well

set and formulate by the SACCO management and staff in corporate governance to better their financial performance.

The study's findings were also in support of what was stated by Dransfield (2001) as the strategies enable an organization to build on its past performance, plan for the future and monitor ongoing progress.

4.2.3 Strategy implementation

This sub section discusses the respondents' level of appreciation on strategy implementation and the results are clearly indicated in the table whereby they in form of percentages. The explanations are under the table.

Table 9: Respondents' level of agreement on practices of strategy implementation

Practices of strategy implementation	Strongly Agree		Agree		Undecided		Disagree		Strongly Disagree		Total		Mean
	F	%	F	%	F	%	F	%	F	%	F	%	
SACCO accepts the rationale for strategic change	15	37.5	22	55.0	3	7.5	0	0	0	0	40	100	4.85
At SACCO there are real staff responsible for the implementation	14	35.0	25	62.5	1	2.5	0	0	0	0	40	100	4.54
Top management ensures ethical values among the staff	9	22.5	21	52.5	8	20.0	2	5.0	0	0	40	100	3.80
Corporate managers assign roles upon the internal control procedures	13	32.5	23	57.5	4	10.0	0	0	0	0	40	100	4.57
Plan review in this is carried out during the implementation phase	18	45.0	20	50.0	2	5.0	0	0	0	0	40	100	4.85
Average Mean													4.59

Source: Primary data (2018)

As revealed in table 9, at SACCO there are real staff responsible for the implementation, top management ensures ethical values among the staff, corporate managers assign roles upon the internal control procedures, plan review in SACCO is a unceasing; and that SACCO accepts the

rationale for strategic change. The results indicated in the table are also in terms of an average of mean which is 4.59 and this shows very high mean which explains that there is strong evidence of the existence of the fact amongst the respective practices.

Strong corporate governance strategy implementation in Umurenge SACCOs operating in Rwamagana district is evidenced by the above findings that are in form mean whereby all mean are at the level of very high. This elaborates the strong evidence of the existence of the fact.

4.3 Financial performance of Umurenge SACCO

This section presents the respondents' appreciation degree concerning the financial performance of SACCO in regard to its corporate strategies. It also highlighted various financial performance indicators of SACCO. The results are later explained under the table for better understanding.

4.3.1 Appreciation of the performance level

This sub section discusses the respondents' level of appreciation on the performance level of Umurenge SACCO and the results are clearly indicated in the table whereby they in form of percentages. The explanations are under the table.

Table 10: Respondents' appreciation on the performance level

Performance appreciation level	Standard Agree		Agree		Undecided		Disagree		Strongly Disagree		Total		Mean
	F	%	F	%	F	%	F	%	F	%	F	%	
Corporate governance increases profitability	15	37.5	20	50.0	5	12.5	0	0	0	0	40	100	4.85
Corporate governance makes SACCO reach its goals	22	55.0	18	45.0	0	0	0	0	0	0	40	100	4.98
SACCO's corporate governance solvency	18	45.0	17	42.5	5	12.5	0	0	0	0	40	100	4.01
Corporate governance increases SACCO's liquidity	16	65.0	14	35.0	0	0	0	0	0	0	40	100	4.89
Corporate governance improves its efficiency	21	52.5	19	47.5	0	0	0	0	0	0	40	100	4.89
Average Mean													4.31

Source: Primary data (2018)

As pointed out by the respondents in table 10 in relation to appreciation on the performance level following the practices of corporate strategy, the effective corporate strategy has helped the SACCO to improve its profitability, to increase its efficiency, to increase its liquidity and to improve its solvency. The researcher understood that the above have been reached following the improvement of corporate strategy. Respondents agreed and strongly agreed the above achievements apart from only 12.8% and 12.5% of the population who put it that they were undecided on the improvement of profitability and the increase of solvency respectively.

Findings revealed in the table are also in terms of average mean of 4.31 which elaborates high mean and this indicates that the fact appears more relying on the description of descriptive statistics indicated in chapter three whereby a mean which is between $3.5 \leq \mu \leq 4.29$ indicates that the fact appears more in the results.

These results were in support of what Egbiide (2009) urged; he stated that the stronger the governance strategies result in better financial performance and he added that the studies generally suggest that the greater the perceived importance of the strategic planning process, the greater is management's strategies, the better the firm's financial performance.

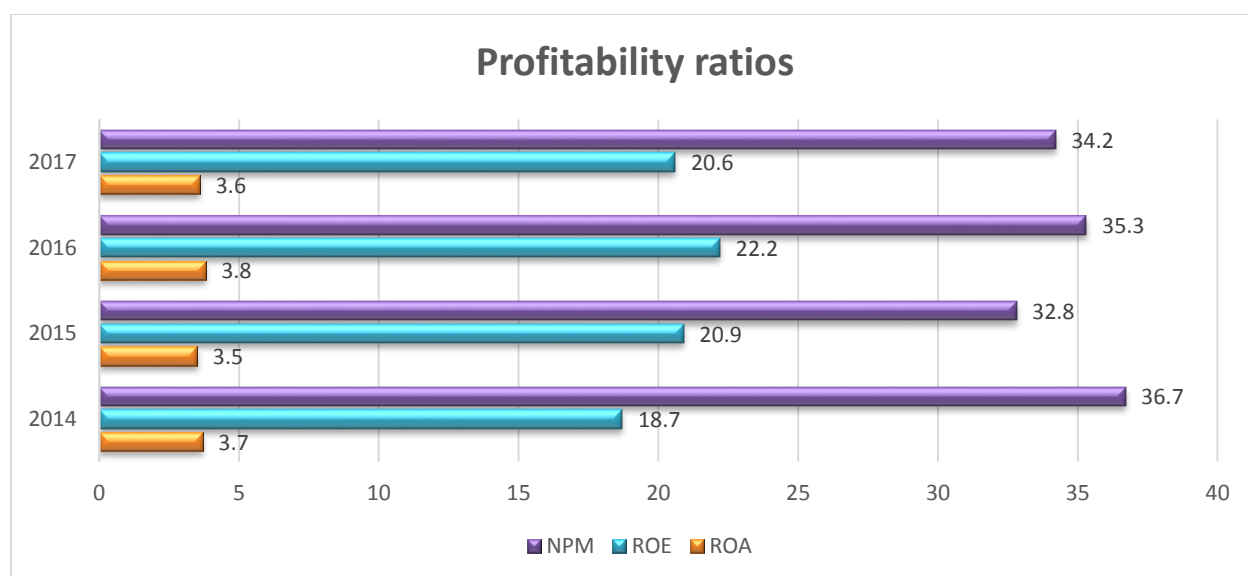
4.3.2 Financial performance analysis of SACCO from 2014 to 2017

The annual reports of Umurenge SACCO were reviewed in order to analyse its profitability, liquidity, and efficiency. From the findings, Umurenge SACCO has experienced an improvement as indicated by the following figures.

4.3.2.1 Profitability

According to Garry et al. (2003), one of the most important areas of finances is that one should review their profitability. Most growing businesses ultimately target increased profits, so it's important to know how to measure profitability. Profitability tools include Net Profit Margin (NPM), Return on Asset (ROA) and Return on Equity (ROE).

Figure 2: Profitability ratio (%)



Source: Annual reports of Umurenge SACCO (2014-2017)

Figure 2 shows an increasing profitability trend from 2014 to 2017. SACCO's profitability remained favourable during 2014-2017 and one of the major reasons of the strong asset growth was due to implementation of the use of corporate strategies in most of its operations in 2014.

During an interview with the head of SACCOs at RCA, he made it clear that with the help of the influence of corporate strategies, the SACCOs which was initially established in each and every umurenge of the country and membership has grown from 1.6 million people to as many as 3 million and number about 478 Country wide. This among other factor has promoted its performance.

4.3.2.2 Solvency

According to Denis (2000), solvency ratios are influential ratios that are used to measure the solvency of the businesses. The higher equity-to-asset ratios indicate a less risky financial situation. Cameron (2004) urges that some businesses prefer to use the debt-to-equity ratio to measure solvency.

Figure 3: Solvency ratio (%)



Source: Annual reports of Umurenge SACCO (2014-2017)

Figure 3 reveals how in this period of four years SACCO has efficiently managed its cost in relation to the income generated. As indicated, except the year 2015, the cost to income ratio decreases which is a very good. The ratio in 2014 rose to 16.8% this was a warning sign of costs rising at a higher rate than income; however SACCO has taken its eye off the ball in the drive to attract more new products with the help of corporate strategies in sensitization and effective accountability by the corporate management.

4.3.2.3 Liquidity

As for Huppert (2010), liquidity ratios are the ratios that measure the ability of a company to meet its short term debt obligations. According to Cameron (2004), the change in the trend signifies the slowing down in loans to customers and a continued increase in impaired loans leading to a decrease in net loans and in total assets. Liquidity ratios include; Net Loan to Total Assets Ratio (NLTA), Liquid Assets to Total Assets (LATA) and Gross Loans to Total Assets (GLTA). Generally, a higher NLTA may indicate possible liquidity problems for banks in a tight credit market in the face of a large deposit withdrawal or in case of unexpected withdrawals.

Figure 4: Liquidity ratio (%)



Source: Annual reports of Umurenge SACCO (2014-2017)

From the ratio between net loans to total assets doesn't directly measure liquidity, it implies that the bank assets are unable for illiquid loans. From range expressed by Figure 4, when favourable economic conditions raised the demand for loans from businesses allowed SACCO to improve its loan portfolios. Loans to customers raised by 35% from Frw 2.1 billion in 2014 to Rwf 6 billion in 2017 while total assets increased from Rwf 8.9 billion in 2012 to Rwf 475 billion in 2015. In 2016 NLTA dropped to 41.7% before finally increasing again to 1.2 in 2015. The variation in the range implies the slowing down in loans to customers and a continued increase in impaired loans leading to a decrease in net loans and in total assets. Generally, a higher NLTA shows possible liquidity problems for a SACCO in a tight credit market in the face of a large deposit withdrawal or in case of unexpected withdrawals.

On the demand side, it would appear that households continued to be reluctant to incur more debt leading to a fall in demand for loans, while on the supply side lending standards have remained tight and led to the slowing down in the growth of loans and advances to customers. Financial stability issues lie at the profitability-liquidity nexus therefore a decline in liquidity is associated with an increase in profitability, since low liquidity means larger percentage of assets and total deposits are tied with loans. Under normal circumstances rapid loan growth tend to result in higher returns and higher risks.

However, Saunders and Cornett (2006) argue that rapid growth in assets (loans) than in deposits is indicative of banks using borrowed funds excessively. There has been a growing trend in loans and advances to customers; however, this increase has not been met by an equal increase in customer deposits.

4.4 Contribution of corporate governance on financial performance of SACCO

The study's respondents were also tasked to clarify whether corporate governance implied at Umurenge SACCO help to improve the SACCO's financial performance. Data collected from the respondents is presented in the table as shown below

Table 11: Level corporate Governance contributes to financial performance of SACCO

Level	Frequency	Percentage
High (80%-100%)	26	65.0
Medium (50%-79%)	13	32.5
Low (Less than 50%)	1	2.5
Total	40	100.0

Source: Primary data (2018)

From the second chapter of this study, there are different factors that were mentioned which contribute to the growth of financial performance of financial institutions. It is for this reason therefore, the researcher tried hard to have the respondents answer the extent or the level corporate strategy contribute to the SACCO's financial performance. With the highest percentage amongst the total population of this study represented by 65.0%, they agreed that corporate strategy highly contributes to the financial performance of SACCO.

In an interview with the head of SACCOs at RCA, he supported what Harper (2009) stated as a way improving financial performance. He stated that a company can have economy of scale in place to better its financial performance. Economy of scale refers to the efficiencies primarily associated with demand-side changes, such as increasing the scope of marketing and distribution, of different types of products with the help of corporate strategies the bank sets.

4.5 Correlation analysis

This helped the researcher to understand the relationship that lies between an independent variable and independent variable of this study.

Table 12: Pearson Chi-square test

Model	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	7.325 ^a	2	.007
Likelihood Ratio	.883	2	.009
Linear-by-Linear Association	.610	1	.001
N of Valid Cases	40		

a. 2 cells (17.7%) have expected count less than 5.

The primary role of the chi-square test is to examine whether two variables are independent ("not correlated with" or not related) or not. In this study a way to take decision was based on the P-value and the alpha. After the analysis, it was found out that the P-value was less than alpha (significance level). As it is revealed in table 12, P-Value was found to be 0.007 which is less than alpha value of 0.05 which explains that the study's independent variable and dependent variable are associated. From the Chi Square test therefore, the researcher learnt that corporate governance has a positive impact on the financial performance of SACCOs in Rwanda.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

The chapter summarizes findings, conclusions delivered from research plus recommendations suggested that SACCOs due to research results about research objectives on corporate governance and financial performance of SACCO in Rwanda with reference to Umurenge SACCO.

5.1 Summary of major findings

The Research was built on both general and specific goals. The general objective of this research was The research apprehends the effectiveness of corporate governance in financial effectiveness in SACCOs within the country, whereas specific objectives were; to assess the respondents' appreciation level on corporate governance practices in Umurenge SACCO, to analyze the financial performance of Umurenge SACCO in terms of liquidity, solvency, and profitability and to identify the relationship between corporate governance and performance of Umurenge SACCO. In order to reach the achievement of the above objectives, a combination of questionnaires, interviews, documentary reviews and analyzing financial and other reports were used. Questionnaires were distributed to a group of 40 respondents who included the staffs of Umurenge SACCO. The following paragraphs summarize how the above objectives were achieved.

5.1.1 Assessment of the level of corporate governance practices in Umurenge SACCO

Data gathered about environment scanning revealed that most of the respondents agreed on the fact that Umurenge SACCO evaluates and disseminates most of their information before strategic decisions are taken. In addition, 50.0% of the total respondents agreed that Umurenge SACCO management analyses the institution's advantages and shortcomings which the researcher learnt that the SACCO never take everything for granted hence less risks are met which leads to high financial performance. Regarding strategy formulation, findings revealed that an average mean of 4.41 shows that SACCO management and staff set the the required strategy formulation while dealing with corporate governance. Lastly, 55.0% of the respondents revealed that Umurenge SACCO, Rwamagana district ensure effective strategy implementation.

5.1.2 Analysis of the financial performance of Umurenge SACCO

As pointed by findings, 65.0% of the total respondents strongly agreed that corporate governance has helped Umurenge SACCOs in Rwamagana to improve their financial performance but in particular liquidity. In addition, in relation to appreciation on the financial performance level, the researcher understood that the Umurenge SACCO financial performance has been reached following the improvement of corporate governance strategies. Findings also revealed in terms of average mean of 4.17 which elaborates high mean and this indicates that the fact appears more relying on the description of descriptive statistics indicated in chapter three whereby a mean which is between $3.5 \leq \mu \leq 4.29$ indicates that the fact appears more in the results. Besides, financial performance ratios showed an increasing profitability trend from 2014 to 2017. SACCO's profitability remained more favourable during 2014-2017 and one of the major reasons of the strong asset growth was due to implementation of the use of corporate strategies in most of its operations in 2014.

5.1.3 Corporate governance practices and performance of Umurenge SACCO

From second chapter for the study, there are different factors that were mentioned which contribute to the growth of financial performance of financial institutions. It is for this reason therefore, the researcher tried hard to have the respondents answer the extent or the level corporate strategy contribute to the SACCO's financial performance. With the highest percentage amongst the total population of this study represented by 65.0%, they agreed that corporate strategy highly contributes to the financial performance of SACCO. In addition, after the statistical analysis with the help of SPSS, it was found out that the p-value was less than alpha (significance level). As it is revealed in the findings P-Value was found to be 0.007 which is less than alpha value of 0.05 that best explains that the study's independent variable and dependent variable are associated. From the Chi Square test therefore, the researcher learnt that corporate governance has a positive impact on the financial performance of Umureng SACCOs in Rwanda.

5.2 Conclusion

This research inquired whether corporate governance has an effect on the financial performance of SACCOs in Rwanda with reference to Uumurenge SACCO. Not only it does add to the

extensive literature, but also contributed in terms of evaluating financial performance of the SACCOs and the level of corporate governance influences the financial performance of the SACCOs in the country.

Based on a sample of 40 employees and review of financial and other reports, all specific objectives were achieved as indicated in the previous sub section. The practices corporate governance which include; environmental scanning, strategy formulation, strategy implementation, evaluation & control were studied fully and the findings indicated that SACCO has all of them and they are fully supported under their specific departments. Strong relationship between the study's variables was revealed after the correlation analysis which was done out of the data gotten from the respondents.

5.3 Suggestions to Umurenge SACCO

Basing on the findings of the study, these below suggestions if applied could lead SACCO to remain financially stable and competitive strong within the industry of banking through effective corporate strategy.

Concerning environmental scanning, this SACCO top management should always identify strategic factors that benefit the SACCO towards its financial performance and this will help to combat a tendency of dependence on the top management hence effective corporate strategy.

As a way of having better corporate strategies in the SACCO, all staff members are recommended to always respect the top management's recommendations and advise to all the staff. More so, the entire staff should always have an idea about what the top management have put in place.

5.4 Areas for additional research

additional researchers suggested to enlarge on the sample size and techniques in order to get many representatives of the population. The researchers also suggested to carry out further research on: Quality service delivery and the profitability of banking institutions in Rwanda

Effects of profitability ratios in the banking institution's performance in Rwanda

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APPENDICES

Appendix 1: A questionnaire addressed to Umurenge SACCO Staff

Dear Respondent,

I am SHEMA Paul, a student at University of Rwanda, (CBE) finalizing my Master Degree of Business Administration in Finance (MBA/Finance). The study is all about, *“Effect of Corporate Governance on the financial performance of Savings and Cooperatives in Rwanda,”* a case study of Umurenge SACCO, Rwamagana district. I am now on my field part of collecting information for this dissertation and you are kindly requested to respond to the various questions in the questionnaire attached. Your responses will be treated with great confidentiality. I would be grateful for your cooperation in this regard.

Thank you.

INSTRUCTIONS

- ✓ To answer, it is enough to tick in the corresponding box or corresponding rating scales;
- ✓ Where you are going to formulate the answer in your own words, please use the reserved space.

Levels of agreement or disagreement

SA: Strongly Agree A: Agree U: Undecided D: Disagree SD: Strongly Disagree

Likert five point scale

Weight scale	Interpretation	Description
1	Strongly agree	Agreeing without doubt
2	Agree	Agreeing with some doubt
3	Undecided	Don't know
4	Disagree	Disagreeing with some doubt
5	Strongly disagree	Disagreeing without doubt

PART I: IDENTIFICATION OF THE RESPONDENTS

1. Area of responsibility

Accounting & Finance

Operations

Corporate affairs

2. Age of respondents

20-30

31-40

41-50

Above 51

3. Gender

Male

Female

4. Level of education

Masters and above

Bachelors' degree

Secondary level

Other qualification specify.....

5. Working experience

Less than 1 year

1 to 2 years

2 to 3 years

3 to 4 years

4 to 5 years

5 years and above

PART II: DATA PROFILE

Appreciation of respondents on Corporate Governance activities in Umurenge SACCO					
Environmental scanning	1	2	3	4	5
1. SACCO evaluates and disseminates most of the information in time					
2. The SACCO's top management identifies strategic factors					
3. SACCO management analyses the institution's advantages and shortcomings					
4. The top management makes a proper marketing strategy plan					
5. Scanning environment provides the basis for formulating strategy					
Strategy Formulation	1	2	3	4	5
8. SACCO identifies past organizational achievements					
9. The SACCO identifies the nature of the environment					
10. SACCO outlines the organization's current strengths and weaknesses					
11. The SACCO management identifies a chosen direction					
12. SACCO chooses specific strategies for business					
13. SACCO monitors the advancement chosen strategies					
Strategy Implementation	1	2	3	4	5
14. SACCO accepts the rationale for strategic change					
15. At SACCO there are real staff responsible for the implementation					
16. Top management ensures ethical values among the staff					
17. Senior managers assign roles upon the internal control procedures					
18. Plan review in SACCO is a continuous process that takes place during the implementation phase					
Appreciation on financial performance level	1	2	3	4	5
19. Corporate governance increases profitability					
20. Corporate governance makes SACCO reach its goals					
21. SACCO corporate governance solvency					
22. Corporate governance increases SACCO liquidity					

23. Corporate governance improves its efficiency					
24. To what extent does corporate governance contribute to the performance of Umurenge SACCO	Tick only one				
High					
Medium					
Low					

Thanks for cooperation.

Appendix 2: Interview guide with the Umurenge SACCO head of SACCOs

Q.1 What are day to day activities does SACCO engage into in order to implement effective corporate governance practices?

Q.2 What challenges are facing SACCO during the setting corporate strategies?

Q.3 How do you analyze your current financial performance and the three previous years in regard to your corporate governance?

Q.4 What is the interval of evaluating the SACCO's corporate governance strategies?

Q.6 What are the importance and purpose of managing your SACCO's corporate governance effectively?