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Full Length Research paper

Corporate governance as a conduit for managerial competency among savings, credit and cooperative societies in Uganda

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Abstract

There has been renewed interest in the corporate governance practices of modern corporations since 2001.This is particularly due to the high-profile collapses of a number of large corporations across Europe and the United States. In Uganda, the collapse of banks like Greenland bank, Uganda Corporative bank and International Credit bank was linked to poor corporate governance practices. This study sought to examine the influence of corporate governance on managerial competency of Savings, Credit and Cooperative Societies in Uganda. A cross sectional research design was used. Data was obtained from the respondents by use of questionnaires. The study population used for this research study included 69 Savings, Credit and Cooperative Societies operating in the Busoga region of Uganda. These were the operating Savings, Credit and Cooperative Societies that received funds from Uganda Microfinance Finance Support Centre. Factor analysis and correlation were the main data analysis methods used. Findings reveal a positive relationship between corporate governance and managerial competency ($r = .676$, $p < .01$). This implies that high levels of corporate governance of the Savings, Credit and Cooperative Societies in Uganda are associated with high levels of managerial competency. Drawing from the findings, it is important that Savings, Credit and Cooperative Societies pay attention to activities of corporate governance in order to improve their managerial competencies, thereby improving their performance.

Keywords: Corporate governance, Managerial competency, SACCOS, Uganda, Microfinance

INTRODUCTION

There has been renewed interest in the corporate governance practices of modern corporations since 2001.This is particularly due to the high-profile collapses of a number of large corporations such as Enron Corporation and MCI Inc. (formerly WorldCom) in the United States of America; HIH and One.Tel in Australia; and Parmalat in Italy. In Uganda, the collapse of banks like Greenland bank, Uganda Corporative bank and International Credit bank was linked to poor corporate governance practices (Matama, 2008).Based on these facts ,it is important that Savings, Credit and Cooperative Societies(SACCOS) embrace corporate governance in order to survive in business. Corporate governance is the system by which companies are directed and controlled (Cadbury Committee, 1992).It exists to resolve the conflict of interest between managers and shareholders which is purely a principal-agent problem arising out of separation of ownership and control (Bushman & Smith, 2003, Coase, 1937,Jensen & Meckling, 1976, Fama & Jensen,1983, Williamson, 1985, Aghion & Bolton, 1992, Hart, 1995).

Available studies show that corporate governance has varying significance on the financial performance of an organization (Romano, Roberta, Bhagat, Sanjai & Brian, 2008; Chen & He, 2008; Chalhoub, 2009, Sueyoshi, Goto & Omi, 2010, Mehdi, 2007, Brown & Caylor 2009; Gürbüz', Aybars & Kutlu, 2010, Kumar, 2005). Corporate governance significantly affects financial performance. This can be through; lower cost of capital (Black, Jang& Kim, 2006); lower cash operating expenses (Ashbaugh, Collins, & LaFond 2004); competitiveness (Kaheeru, 2001); corporate reputation (Edelman, 2010); and resource allocation (Maher & Andersson, 1999).

Cognizant of the importance of managerial competency and corporate governance on the financial performance of these SACCOS, Government of Uganda signed a Memorandum of Understanding with Uganda Cooperatives Savings and Credit Union (UCSCU), Uganda College of Commerce-Kigumba, Uganda Cooperative Alliance, and the Department of Cooperatives in the Ministry of Trade, Tourism and Industry (Mulondo and Kulabako, 2010), to build strong corporate governance and managerial competency among SACCOS through training. (www.ucscu.co.ug). Other stakeholders like United States Agency for International Development (USAID), Netherlands Development Organization (SNV), Germany Agency for Development Corporation (GTZ) have directly and indirectly extended a hand in promoting good corporate governance and building managerial competency to SACCOS in Uganda (Fiorillo, 2006). After being satisfied that good corporate governance and Managerial competency were in place, Micro Finance Support centre (MSC) would extend loans to those SACCOS.A region like Busoga that has been ranked as one of the poorest regions in Uganda (Uganda Bureau 0f statistics report, 2002-2005), would benefit from such an arrangement, only if the SACCOS show a positive Financial Performance trend.

The purpose of this study was to establish the relationship between corporate governance and managerial competency of SACCOS in Uganda. The study was conducted on SACCOS that borrowed funds from Uganda Microfinance Support Centre in Busoga region. Busoga region was chosen because it is one of the poorest regions in Uganda. As such, the success of SACCOS in this region may be a solution to addressing the poverty problem.

Literature review

This section presents the literature reviewed on the study variables. In particular, it presents literature on the relationship between corporate governance and managerial competency

Corporate governance

Corporate governance is "the system by which companies are directed and controlled" (Cadbury Committee, 1992).It exists to resolve the conflict of interest between managers and shareholders which is purely a principal-agent problem arising out of separation of ownership and control (Coase, 1937); Jensen & Meckling (1976); Fama & Jensen (1983); Williamson (1975, 1985), Aghion & Bolton (1992) and Hart (1995). It involves building credibility, ensuring transparency and accountability as well as maintaining an effective channel of information disclosure that would foster good corporate performance. In addition, it builds trust and sustains confidence among the various interest groups that make up an organization (Mark, 2000).

The OECD Principles of Corporate Governance (2004) indicate that corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined. "Effective corporate governance ensures that long-term strategic objectives and plans are established, and that the proper management and management structure are in place to achieve those objectives, while at the same time making sure that the structure functions to maintain the corporation's integrity, reputation, and accountability to its relevant constituencies (Applied-Corporate-Governance.com 2009-12; *www.gcgf.org/).*

In order to understand corporate Governance; Board independence, Board composition, Board Performance and Transparency were considered.

Managerial competency and financial performance

Competency is the ability to perform efficiently and effectively according to standards appropriate to a task at hand (Kagire & Munene, 2007). Martin & Staines, (1994) defined Managerial competencies as personal-oriented and task-oriented skills that are associated with effective management and leadership. Resource based view (RBV) theory proposes that resources that are rare, valuable, and difficult to imitate enable firms to attain superior performance (Murphy & Poist, 1994), and managerial competency is one such resources. Since the Managers' job performance is related to firm performance, the better the managerial competency of a firm, the better will be its financial performance (Kerr & Werther, 2008). According to the upper echelons theory (Hambrick & Mason, 1984, Hambrick, 2007), top executives have specific competencies which make a difference in a firm's financial performance.

Veres, Locklear & Sims (1990) note that within the worker-oriented approaches, competency is primarily constituted by attributes possessed by workers, typically represented as knowledge, skills, abilities and personal traits required for effective work performance. This is in agreement with Keel (2006) where competency is defined as a set of behaviours that encompasses skills, knowledge, abilities, and personal attributes that, taken together, are critical to successful work accomplishment.

On the other hand, it is argued that the role of managerial competency in firm financial performance is contingent upon the size of a firm (Whitley, 1989). As firm size expands and becomes more complex, the need for advanced management practices tends to materialize increasingly. Such contingency also suggests an insignificant relationship between managerial activities and firm financial success as the owner-managers of the entrepreneurial firms rely more on their traditional skills and intuitiveness, rather than the managerial approaches, to deal with the daily operational problems (Jennings & Beaver, 1997). In support of the above statement, Cetin (2010) found a weak relationship between Managerial competency and financial performance.

The above debate provides contrasting views on the relationship between transparency and financial performance. For example, the above literature did not provide the stage at which an organization's managerial competency would explain her financial performance. As such, it was important to establish whether managerial competency explained the financial performance of SACCOS in Busoga region.

Corporate governance and managerial competency

Khurana (2011) found out that independent board of directors should select charismatic Chief Executive Officers (CEOs) with skills as a top priority. This will help in that a CEO will use his skills, ability and expertise to predict the future, make the company ready for any change and benefit from it. It is further urged that Managers' use their knowledge, skills and expertise to pursue perquisite consumption instead of maximizing shareholders wealth (Williamson, 1964, Jensen, 1986, Stulz 1990).Therefore firms should utilize corporate governance to control managerial discretional decisions (Miller, 2011; Myers & Smith, 2010).

Competent independent boards are an important factor in monitoring the actions of the company manager's .It is important for board members to have knowledge on managing the company and the corporate governance processes (Chtourou, Bëdard & Courteau, 2001).For example, Board members who do not have appropriate competency in accounting and finance, may be able to monitor business processes, but may not monitor the managers knowledge and expertise in manipulating earning and the likely implication(Xie, Davidson & Dadalt , 2003; Chtourou *et al*. 2001). Similarly, Agrawal & Chadha (2005) indicate that the probability of earnings manipulation is low for firms with board of directors who have knowledge in accounting and finance

Whereas the above debate is to the effect that corporate governance in effect affects Managerial competency; the focus has been made to large organizations from developed economies. This research study helped to know whether these results apply to SACCOS in Busoga region whose operation is in a developing economy.

METHODOLOGY

The section covers the methodology that was used in the study. In effect, it covers the research design, study population, sampling design and procedure, data collection methods/instruments, measurement of variables, validity and reliability, and data analysis that were used by the researcher.

Research design

The researcher used a cross sectional research design. Data obtained from the respondents was collected at one point in time (Olsen and George, 2004).

Study population

The study population used for this research study included 69 SACCOS. These were the operating SACCOS in Busoga region that received funds from Uganda Microfinance Finance Support Centre. The list from which this population was obtained was got from Uganda Microfinance Support Centre - Iganga Zonal office (MSC-Iganga Zonal Office, monthly report, 31st March, 2011).

Measurement of variables

Corporate governance was measured using, Board Composition, Board independence, Board performance and transparency (Tusiime etal, 2011; Matama, 2008; Heidrick & Struggles, 2011, Augustine, 2012).

On the other hand, Managerial competency was measured using Knowledge, Skills, Abilities and Personal traits (Veres, Locklear, & Sims, 1990, Keel, 2006).

Validity and reliability

In order to test and improve the validity of the questionnaire, the researcher availed the first draft of the instruments to experienced researchers and fellow students for constructive criticism and then later to the supervisors. These were requested to look at the items and check on language clarity, relevancy, comprehensiveness of content and the length of the instruments. Thereafter, the researcher made the necessary adjustments in respect to the comments raised

Table 1: Validity and Reliability analysis

Variable	Content Validity Index	Cronbach's Alpha	Numberof items
Corporate Governance	0.813	0.901	52
Managerial competence	0.797	0.958	45

Table 2. Factor analysis for Managerial competency

	Skil1s	Knowledge
Managers of the SACCO have the necessary qualifications to manage the SACCO	.835	
The SACCO managers competently initiate programs to improve the quality of the SACCO portfolio.	.800	
The SACCO Managers are competent enough to make the SACCO profitable	.718	
Managers of the SACCO are appointed on merit considering in mind their skills about SACCO business.	.666	
The Managers of the SACCO delegate tasks in a manner that aims at achieving financial targets	.617	
Measurement systems are used to determine when the marginal benefits from specific programs are falling		.778
The SACCO managers have viable measurement metrics for making informed decisions about the systems to adopt		.691
Eigen Value	8.551	7.233
Variance (%)	19.002	16.074
Cumulative Variance (%)	19.002	35.076

Source: Primary data

and with the supervisors' advice. The researcher went ahead to calculate a Content Validity Index (CVI).

On the other, in order to establish the reliability of the instrument, the researcher conducted a pilot study. Using the results of the pilot study, the reliability of the instruments was computed using the Cronbach's Alpha Coefficient.

The results of content validity and reliability are shown in table 1. Results in table 1 indicate that the research instrument contained items relevant to the study. This is because the content validity index for all the variables was above the acceptable threshold of 0.7 according to George & Mallery (2003) and Gliem & Gliem (2003).The Cronbach's alpha coefficients of all the variables of over 0.8 implied that the instrument could be relied on to produce consistent results as commended by George & Mallery (2003).

FINDINGS

This section contains the presentation, analysis and interpretation of the findings.

Factor analysis

In trying to understand the outstanding factors in corporate governance and managerial competence, a factor analysis was done. Factor analysis also helped in compression of the data and presents an understanding of the quality of factor loading. The results are presented in table 4.2 and 4.3 for corporate governance and Managerial competency respectively.

Factor analysis for managerial competency

The factor analysis for managerial competency was done and the results obtained are presented in table 2. Results from table 2 found Managerial competency to comprise of two major components. These include knowledge and skills. The salient factors to consider in each of the factors include:

As regards to skills, the outstanding factors include: -

Table 3. Correlation analysis

Variable	**1**	**2**
Corporate Governance (1)	1	
Managerial competency (2)	.676**	1

***Correlation is significant at 1% (2 tailed)*
Source: Primary data

managers having the necessary qualifications to manage the SACCO (.835), managers competently initiating programs to improve the quality of the SACCO portfolio (.800), Managers being competent enough to make the SACCO profitable (.718), Managers being appointed on merit considering in mind their skills about SACCO business (.666) and managers delegating tasks in a manner that aims at achieving financial targets (.617).

Considering knowledge in explaining the managerial competency of managers of SACCOS in Uganda, the important factors to consider are; measurement systems being used to determine when the marginal benefits from specific programs are falling (.778) and the managers having viable measurement metrics for making informed decisions about the systems to adopt (.691). With Eigen values above 5, both Managers' skills and knowledge were found to be good in explaining managerial competency.

Correlation results

Correlation analysis was used to examine the relationship between corporate governance and managerial competency as seen in table 3. The results from table 3 indicate a positive relationship between corporate governance and managerial competency revealed by the correlation coefficient ($r = .676$, $p < .01$).

This implies that high levels of corporate governance of the SACCOS in Uganda are associated with high levels of managerial competency. Likewise, low levels of corporate governance are associated with low level of managerial competency.

In other words, an improvement in the board performance, transparency and board composition of these SACCOS is positively associated with an improvement in managerial competency.

On the other hand, a decline in corporate governance is associated with a decline in the managerial competency.

DISCUSSION OF FINDINGS

This section contains the discussion of findings of the study, conclusions, recommendations and areas for further research.

Relationship between corporate governance and managerial competency

The results indicate a positive relationship between corporate governance and managerial competence. In effect; Board performance, transparency and board composition of the SACCOS in Uganda are positively associated with the skills and knowledge of the managers of the SACCOS. Therefore, a SACCO whose board is committed to its mission and vision; cautiously supervises the work of its managers and operates in the best interest of the shareholders, will source managers with the right skills and knowledge. Such a Board will have regular meetings to review the financial performance of the SACCO and guide managers on the way forward. It will ensure that the SACCO managers have viable measurement metrics for making informed decisions about the systems to adopt in order to improve the financial performance of the SACCO.

In addition, such a board will ensure that managers have measurement systems that are used to determine when the marginal benefits from specific programs are falling. As if that is not enough, a SACCO with a board that provides the right mix of skills and knowledge will attract skilled and knowledgeable managers who are competent in managing the SACCO business leading to improved financial performance.

These findings were in agreement with a study by Khurana (2011) who urged that corporate governance should be used to identify managers with skills as a top priority. Such will be used to predict the future, make the company ready for any change and benefit from such a change. Similarly the study is in agreement with findings by Chtourou et al (2001) which is to the effect that corporate governance help in monitoring the managers' knowledge on managing the company.

CONCLUSION AND RECOMMENDATIONS

Results indicate that corporate governance influenced managerial competency. SACCOS should put efforts in building strong corporate governance amongst them in line with strengthening their managerial competency. Therefore the found constructs from this study of board performance, transparency and board composition should be strengthened in bid to support the strength of managerial competency among these SACCOS.

Drawing from the fact that corporate governance and managerial competence explained 33% of the variance in the financial performance of the SACCOS in Uganda, it is important that more studies are done to establish the other factors that explain 67% of the variance in financial performance.

Implications

Since evidence obtained was to the effect that Corporate Governance and Managerial competency relate to the financial performance of SACCOS in Uganda, the significance include the following:-

Using the findings from this study, SACCOS may improve on their performance by imbedding good corporate governance and managerial competency in their operations.

In addition, it may help policy makers to direct their policies and boast their advocacy for good corporate governance and managerial practices in SACCOS as a means of enhancing their financial performance. SACCO Managers, Board members, policy makers and other stake holders can focus their energy to identifying other factors that explain the variation in the financial performance of SACCOS in Uganda.

This study also identified a possibility of other unexplained factors that may explain the poor performance of SACCOS in Uganda. This led to a recommendation to carry out more research so as to establish other factors explaining the poor financial performance of SACCOS in Uganda.

Lastly, the findings from this study are expected to add on the body of existing knowledge on Corporate Governance, Managerial competency and financial performance of SACCOS

Areas for Further Research

Following the findings from this research study, the researcher proposed studies on other factors which explain 63% of the variance in the financial performance of SACCOS in Uganda.

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