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**Financial Accountability and Financial Performance of
Savings and Credit Cooperatives in Mid-Western Uganda**

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Abstract

Purpose: To establish the association between financial accountability and Financial Performance of SACCOs in Mid-Western Uganda.

Methodology: A cross-sectional research design and positivist paradigm were used to collect data from 93 SACCOs in Mid-Western Uganda using a close-ended questionnaire. Besides, a standard linear regression analysis was conducted. From the target population of 122 SACCOs, a sample of 93 SACCOs was selected using probability sampling technique.

Findings: The study established a positive significant association between financial accountability and Financial Performance.

Unique Contribution to Practice and Policy: The study confirms the theoretical assertions that financial accountability associates with financial performance. Besides, the study addresses the mixed findings on the link between financial accountability and financial performance. Also, the study suggests a need for management to consider financial accountability as a key driver of financial performance of SACCOs. Still, there is need for government to advocate for effective financial accountability to ensure that SACCOs attain sustainable financial performance.

Keywords: *Financial accountability, Financial Performance, and SACCOs*

Introduction

Savings and Credit Cooperatives (SACCOs) have been considered as engines for poverty reduction through increased access to affordable credit and efficient provision of savings facilities to the economically active poor in developing economies who are excluded from formal financial institutions, such as commercial banks (Ramath & Preethi, 2014). Through improved access to credit and efficient provision of savings, the rural and urban poor are able to smoothen their consumption, build their asset base, develop their microenterprises, and manage their risks better (Ramath et al., 2014). Also, in order to attract members to actively participate in the cooperatives' business activities, there is a need for higher financial returns by SACCOs as a portion of which will be allocated to the members in form of dividend pay-out (Shafawaty, Ram & Azizi, 2016). In Uganda, the formation of SACCOs has of recent regained enormous consideration as a key strategy for poverty reduction. This is in response to the increased demand for credit by low-income earners in the rural and urban areas who are considered unbankable by the formal financial institutions (Eton, Basheka, & Mwosi, 2020). Despite of their effort towards sustainable financial performance, SACCOs in Uganda have continued to experience unhealthy financial performance, as revealed by the low levels of return on assets, liquidity, and high portfolio at risk levels (figure 1). Thus, the financial performance trends in figure 1 explain the prevailing phenomena.

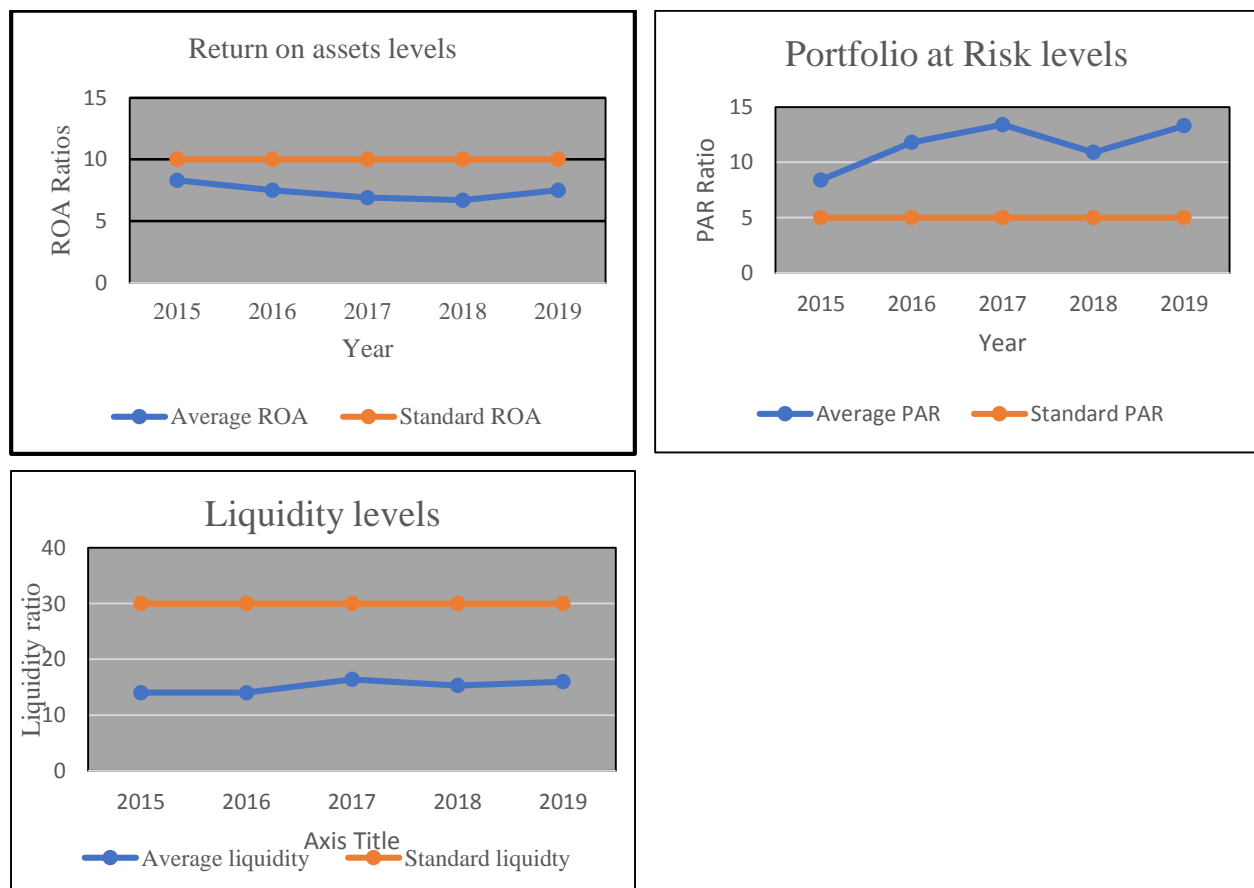


Figure 1: Financial performance levels of SACCOs in Uganda (2015-2019)

Source: AMFIU reports (2019/2020; 2017/2018; 2016/2017; 2014/2015)

The government of Uganda, through its partnership with the International Fund for Agricultural Development (IFAD), has gone ahead to identify the continuing need to promote rural finance and to focus on financial inclusion as key pillars of Uganda's efforts to eradicate poverty (BMAU report, 2019). The Project for Financial Inclusion in Rural Areas (PROFIRA) was designed in 2013 as a partnership between the Ugandan government and IFAD to enable SACCOs become sound and financially sustainable organizations (BMAU report, 2019). In addition, the government established Microfinance Support Centre to provide cheaper sources of funding to SACCOs (AMFIU report, 2017/2018). Still, the Tier 4 Microfinance and money lenders Act 2016 was enacted to guide SACCOs' operations (AMFIU report, 2017/2018). With all the above government efforts, one wonders why unhealthy financial performance of SACCOs as indicated by figure 1 is still prevalent, hence, pointing to the unexplained phenomena.

The existing literature indicates that there are several factors that can foster sustainable financial performance of SACCOs, but financial accountability is considered a key aspect in influencing sustainable financial performance (Kinyua et al., 2015; Marwa & Aziakpono, 2015). Empirical studies suggest a connection between financial accountability and financial performance of firms (Agwor & Akan, 2017; Wanjau, 2018). For instance, Mwangi, Nyachwaya, & Cheruiyot (2015) indicate a positive relationship between financial reporting and financial performance of SACCOs in Kericho Municipality. The study points to the fact that adequate financial reporting increases investors' goodwill and confidence, hence enhancing financial performance (profitability) of the firm. In support of the above, Quayes and Hasa (2014) argue that SACCOs with more frequent financial reporting structures are associated with better financial performance.

Contrary to the above, Haat, Rahman, and Mahenthiran (2014) show that financial accountability insignificantly influences financial performance of firms, hence down playing the earlier theoretical assertion that the level of transparency minimizes information opaqueness, which in the end enhances financial performance. The debate is further expanded by the findings of Makai and Olweny (2016) that indicate a negative and insignificant link between financial reporting and financial growth of SACCOs. This seems to conflict with the proposal to have financial statements provided in a timely manner and provision of accurate information. The above conflicting study findings reveal an inconclusive debate on the connection between financial accountability and financial performance.

Literature Review and Hypothesis Development

Muchiri and Jagongo (2017) show a strong positive significant bond between financial accountability and financial performance of public institutions in Kenya. The study provides that firms should ensure that its resources are safeguarded from unethical and irregular practices because such practices lead to loss of resources through misappropriations and fraud, hence affecting financial performance. There is need for value for money in the utilization and organization of resources. In the same line of argument, Mwesi, Nasiima, and Suubi (2014) assert that effective and efficient utilization of resources improves financial performance. To strengthen the debate, Keramidou, Mimis, and Fotinopoulou (2012) argue that efficient utilization of resources leads to reduced costs, hence resulting to increased economic profits, and survival of firms. Subsequently, best practices in firms are aimed at efficient and effective utilization of resources, hence avoiding any waste, and creating profits (Keramidou et al., 2012).

In a related case, Mwangi, Nyachwaya, & Cheruyoit (2015) present a strong positive significant relationship between financial accountability (financial reporting) and financial performance of SACCOs in Kericho Municipality, Kenya. The study observes that good financial reporting leads to investors' trust and confidence in the operations of firms. The assertions are consistent with Mwesigwa et al. (2014) who reveal that disclosure and transparency are foundations for protecting shareholders' rights, and building shareholders' confidence in the firm's business, which in the end may motivate shareholders to entrust more of their resources with management. Quayes and Hasan (2014) concur with the above assertions and strengthen the debate by arguing that firms with high levels of disclosure are highly trusted by shareholders in as far as the usage of their resources is concerned, and perform better than firms with low levels of disclosure. This is so because firms with high level of disclosure are expected to attract more investors than others, hence leading to low cost of capital (Quayes et al., 2014; Jahanshad, Heidapoor, & Valizadeh, 2014). Accordingly, there is need to adopt financial transparency as a step towards building confidence in shareholders since managers are encouraged to increase the company's value.

Whereas numerous scholarly works indicate that financial accountability influences financial performance, some empirical studies have revealed contradicting results. For example, Haat, Rahman, & Mahenthiran (2014) reveal that financial accountability insignificantly influences financial performance of Malaysian companies. The results tend to conflict the same study's assertion that the level of transparency in an organization has an impact on minimizing the occurrence of information opaqueness between corporate insiders and outsiders. The same study theoretically assumed that an improvement in credibility of financial information may not eliminate business failures of firms in totality, but could only provide a "Red flag" signal to the stakeholders, and specifically the regulators. The study further asserts that the quantity of accounting information disclosed, and specifically the voluntary items disclosed in the annual reports are key determinants in improving financial performance. In a related matter, the theoretical assertions and empirical underpinnings by Mwesigwa et al. (2014) conflict in such a way that whereas the theoretical assumption indicate that banks with high level of transparency are considered to attract more investors, the empirical study findings in the same study present a positive but insignificant association between financial accountability and financial performance. Likewise, Keramidou et al. (2012) assert that efficient use of resources without wasted inputs enhances financial performance.

In spite of this assertion, the study's empirical findings tend to conflict by revealing a positive but statistically insignificant link between financial accountability and financial performance. Furthermore, Makai and Olweeny (2016) indicate a negative and insignificant affiliation between financial accountability and financial growth of SACCOs in Kirinyanga, Kenya. In spite of the above conflicting empirical results, the study's assertion attach value to transparency, specifically in the event that shareholders are not directly involved in the day-to-day operations of the firms, hence require an assurance that management is protecting their assets, and is acting diligently while revealing the financial performance of the firms' activities. The study observes that disclosure of financial information enables shareholders to know how efficiently the limited resources of the firm are being managed and utilized, hence furthering their confidence in the firm's operations. The study recommends that the managers of SACCOs adopt sound disclosure and financial reporting systems that are in line with the widely accepted standards. Due to the conflicts between

the studies' assertions and empirical findings, the ongoing debate on the affiliation between financial accountability and financial performance is rendered incomplete.

A number of empirical studies have attempted to establish the correlation between financial accountability and financial performance. However, most of the above studies were conducted from varied countries, namely; Kenya, Indonesia, Ghana, and Malaysia, and from various industries, namely; meat processing companies, and MFIs. Thus, their results are not generalizable to local sectors since the business environments in which they operate may vary within countries and regions, hence affecting performance and operations of organization differently (Kowo & Sabitu, 2018; Kangethe & Omagwa, 2018). To address the existing literature gaps, there is need to carry out an investigation to establish the correlation between financial accountability and financial performance of SACCOs in a Ugandan business environment. From the reviewed literature on financial accountability and financial performance, the following hypothesis was developed:

H: There is a positive relationship between financial accountability and financial performance of SACCOs in Mid-Western Uganda.

Methodology

The study adopted a cross-sectional research design with an aim of addressing the study objectives and testing the study hypotheses. The choice was made in order to generate empirical knowledge, and enables the collection of data at a point in time (Blumberg, Cooper, & Schindler, 2008). A sample size of the study was 93 SACCOs, and this was obtained using the Yamane's formula of 1973 that guides the sample selection process. According to Yamane (1973), the sample size of the study was determined by:

$$n = \frac{N}{1+N(e)^2}$$

Where: n = Sample size; N = Study population; e = Error term= 5%.

$$n = \frac{122}{1+122*(0.05* 0.05)}$$

$$n = \frac{122}{1+ 0.305}$$

$$n = \underline{93 \text{ SACCOs}}$$

Simple random sampling technique was used to obtain the representative sample from the entire study population. This technique was preferred because it offers an equal chance to every item of the study population to be included in the sample (Blumberg et al., 2008). Standard linear regression analysis was conducted to establish the strength and direction of the association between the independent and dependent variables, as revealed by R-squared and R, respectively as indicated in table 4. The following is an analytical regression model for testing the association between financial accountability and financial performance of SACCOs in Mid-Western Uganda:

$$FP = b_0 + b_1ACC + e$$

Where; FP = Financial performance; b_0 = Constant; b_1 = Beta coefficient; ACC = Financial accountability; e = Error term.

Measurement of study variables

Financial accountability was measured in terms of value for money (Marwa & Aziakpono, 2015; Sekakubo et al., 2014) and level of transparency (Agwori & Akani, 2017; Nalukenge et al., 2017). All the items of financial accountability were anchored onto a five-point Likert-type of scale in the questionnaire. This was in agreement with the study by Kamukama et al. (2017) that used the following scales: 1 = Strongly disagree; 2 = Disagree; 3 = Undecided; 4 = Agree; 5 = Strongly agree.

Results

Demographic Characteristics Results

Table 1: Years of operation of SACCOs

	Frequency	Percent	Cumulative Percent
Below 5 years	18	19.4	19.4
5-9 years	32	34.4	53.8
9-13 years	32	34.4	88.2
Above 13 years	11	11.8	100
Total	93	100	

Source: Primary Data (2020)

Majority of the SACCOs have been in business for a period of more than 05 years. This can be evidenced by the fact that only 19.4% of the SACCOs have been in business for a period of less than 05 years (table 1). This implies that the going concern principle was adhered to by the SACCOs studied. In addition, SACCOs with a substantial period in business are associated with experience in the operations of SACCOs, and being conversant with the dynamics in the Microfinance institutions' business environment, thus expected to significantly influence financial performance.

Table 2: Location of the SACCOs

	Frequency	Percent	Cumulative Percent
Kasese	12	12.9	12.9
Bunyangabu	19	20.4	33.3
Kabarole	20	21.5	54.8
Kyegegwa	12	12.9	67.7
Kyenjojo	10	10.8	78.5
Kamwenge	11	11.8	90.3
Kitagwenda	9	9.7	100
Total	93	100	

Source: Primary Data (2020)

The highest number of the SACCOs studied (21.5%) were located in Kabarole district, while 20.4% were located in Bunyangabu district (table 2). Also, an equal percentage 12.9% of the SACCOs was situated in Kyegegwa and Kasese. Furthermore, 10.8% and 11.8% of the SACCOs were found in Kyenjojo and Kamwenge, respectively. The least number of SACCOs studied (9.7%) was located in Kitagwenda district.

Table 3: Capital structure for the SACCOs

	Frequency	Percent	Cumulative Percent
Equity Capital only	48	51.6	51.6
Equity and Loans	33	35.5	87.1
Equity & Donations	7	7.5	94.6
Equity, Loans & Donations	5	5.4	100
Total	93	100	

Source: Primary Data (2020)

Majority of the SACCOs in Mid-Western Uganda (51.6%), as per table 3 financed their business operations by use of equity capital only, while 35.5% used both equity capital and loans. The least of the financing streams were from Equity capital and donations (7.5%) and Equity capital, loans and donations (5.4%). This implies that most of the SACCOs had a stable financing option since they used their own money to run their business, which is expected to reduce the cost of capital, hence impacting on their sustainable financial performance.

Regression Analysis Results

In order to establish the strength and direction of the association between financial accountability and financial performance, and the model fitness, standard linear regression analysis was conducted, and the results are revealed in table 4.

Table 4: Standard linear regression analysis results

(a) Model Summary					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	
1	0.48	0.22	0.22	.58	

(b) ANOVA						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	8.80	1	8.80	26.60	.00
	Residual	30.09	91	.33		
	Total	38.89	92			

(c) Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	-.97	.68		-1.42	.14
	Accountability	.83	.16	.48	5.16	.00

Dependent Variable: Financial Performance

Source: Primary Data

The study results in table 4 indicate a positive significant association between financial accountability and financial performance of SACCOs in Mid-Western Uganda ($R = .48$, $P = .00$). This implies that an improvement in financial accountability is associated with an increase in financial performance. Consequently, the hypothesis that states that there is a positive association between financial accountability and financial performance of SACCOs in Midwestern Uganda, H, is hereby accepted. In addition, 22% of the variation in financial performance is explained by financial accountability, while 78% of variation is explained by other factors not considered in this study. Also, the beta coefficient ($B = .83$) reveals that for every unit of financial accountability, financial performance of a SACCO increases significantly by 0.83 units. The constant (-.97) was statistically insignificant ($p > .14$), implying that there was no need for more variables to be added in the model, hence signifying the model's fitness.

Discussion

The study results in table 4 indicate a positive significant association between financial accountability and financial performance of SACCOs in Mid-Western Uganda ($R = .48$, $p = .00$), thus in agreement with hypothesis H. The beta coefficient ($B = .83$) reveals a significant influence of financial accountability to the variation in financial performance of SACCOs in Mid-Western Uganda. The study results suggest that 22% of the variation in financial performance was triggered by financial accountability. The study results are in line with empirical studies by scholars (Muchiri et al., 2017; Mwangi et al, 2015; Otieno, Mugo, Njeje, & Kimathi, 2015) that show a positive significant association between financial accountability and financial performance. From the theoretical perspective, the resource-based view theory advocates for nurturing and managing the scarce resources of the firm if the firm is to achieve high financial performance, and this calls for effective financial accountability (Barney, Corte, Arikan, & Sciarell, 2012). Furthermore, effective utilization of scarce resources leads to increased revenue and decreased operational costs, thus enhancing financial performance of firms (Mire, & Mukhongo, 2016; Shafawaty, Ram, & Aziz, 2016). Additionally, the stewardship therefore promotes transparency, thus motivating investors to entrust more of their resources with management (Sewanyina, & Bainemasanyu, 2020). Also, stewardship theory creates a positive impact on the employees' behaviour, consequently, promoting effective and efficient utilization of resources (Lasisi, 2017).

Theoretical Implication

The study affirms empirical literature in regard to positive influence of financial accountability on financial performance. Furthermore, numerous studies have been carried out to establish the association between financial accountability and financial performance (Mwesigwa et al., 2014; Otieno et al., 2015). However, no empirical study that has attempted to explain the influence of financial accountability on financial performance of SACCOs in a Ugandan context, and specifically, Mid-Western Uganda. The empirical gap has been addressed by the current study. Besides, the study disregards mixed findings in the previous studies on the association between financial accountability and financial performance.

Managerial Implication

The study results suggest a need for management to put into place effective financial accountability mechanisms if SACCOs are to enhance their financial performance. The SACCO managers should focus greatly on ensuring that there is high level of transparency, characterized by quality and timely financial reporting, as this will motivate investors to entrust more of their resources with the organization, thus providing cheaper sources of financing.

Conclusion

This study focused on establishing the association between financial accountability and financial performance of SACCOs in Mid-Western Uganda. Based on the empirical literature review, financial accountability as driver of financial performance was taken into account, and the direction of its influence on financial performance was hypothesized. Based on the study hypothesis, it can be concluded there is a positive significant association between financial accountability and financial performance of SACCOs in Mid-Western Uganda. It can be concluded that financial performance of SACCOs could be enhanced by putting into place adequate financial accountability mechanisms.

Recommendations

In order to boost financial performance of SACCOs in Uganda, managers should make it a point to embrace accountability in the SACCOs' operations, since the results of the study have considered accountability as a key driver of financial performance. SACCOs should put in place systems to safeguard their resources from fraud and misappropriation, thus calling for effective and efficient utilization of resources. Also, the level of transparency should be scaled up through effective financial reporting and disclosures. The end result of this is built trust and confidence in the actions of management of SACCOs by the owners, and thus improving the financial performance of SACCOs through increased investments. This is so because investments by members provide cheaper sources of funding to SACCOs as they are linked to low costs. Theories used in this study have highlighted the need for accountability. A case in point is the Resource-based view and Stewardship theories that present resources as being scarce, but crucial for the success of the firms. Thus, there is need for efficient and effective utilization of the scarce resources if the firm is to achieve maximum financial returns. To achieve this, SACCOs should possess competent and morally upright staff.

Areas for Further Research

This study was conducted in Mid-Western Uganda. A comparative analysis of SACCOs in other parts of the region, while considering the same variables (financial accountability and financial performance), could be beneficial. This study adopted a cross-sectional research design. A longitudinal study, using the same hypothesis, H, could be conducted so as to obtain a deeper understanding of the association between financial accountability and financial performance of SACCOs.

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