

**ASSESSMENT OF THE EXTENT OF CORPORATE GOVERNANCE
ADOPTION IN COOPERATIVE SOCIETIES: A SURVEY OF
DAR ES SALAAM SACCOS**

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CERTIFICATION

I the undersigned certify that I have read the dissertation entitled “Assessment of the Extent of Corporate Governance Adoption in Cooperative Societies: A Survey of Dar Es Salaam SACCOS” and found it to be in the form acceptable for examination.

Dr. Proches Ngatuni

SUPERVISOR

Date

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DECLARATION

I, **Batilda A. Mushi**, do hereby declare that, this dissertation is my own original work and that it has not been submitted for a similar degree in any other University.

Signature

Date

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ABSTRACT

Four years of implementing the CRMP, little is known about the extent of adoption of the measures to improve governance in cooperatives in general and SACCOS in particular. Therefore this study generally intended to assess the extent of good governance practices adoption in cooperative societies.

A sample of 25 SACCOS(15 work –based and 10 community based) were systematically drawn from a population of SACCOS in Dar es salaam. A questionnaire designed in a likert scale format to assess the extent of adoption of code of conduct for board and management, measures to ensure members participation and extent of compliance was administered to each SACCOS. Comparative bar charts were used to sort the attitudinal items that described the extent of adoption. Independent two sample t-test was used to compare the means of the mean scores across scale items in each of the three categories between work-based and community-based SACCOS.

The study reveals that Savings and credit Cooperative societies in Dar es salaam have adopted measures to enhance good governance principles. However there is significant differences in the extent of adoption of such measures between work-based and community-based SACCOS .Significant differences were found in the areas of electing leaders as per code of conduct, disclosure of property by leaders, training as well as induction for board members, executive, members and staff performance assessment. It is recommended that measures to empower SACCOS in the areas be instituted by relevant regulatory authorities.

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LIST OF ABBREVIATIONS

CGAP	:	Consultative Group to Assist the Poor
COASCO	:	Cooperative Audit and Supervision Corporation
CRMP	:	Cooperative Reform and Modernization Programme
IAS	:	International Accounting Standards
ICA	:	International Cooperative Alliance
SACCOS	:	Savings and Credit Cooperative Societies
SPPIA	:	Standards for the Professional Practice of Internal Auditing
URT	:	United Republic of Tanzania
WOCCU	:	World Council of Credit Unions

CHAPTER ONE

1.0 INTRODUCTION

1.1 Background to the Study

Credit unions, often called cooperative societies, are financial institutions that promote thrift among their members, create a front of credit for these members, and play an important role in the economy of several countries (WOCCU, 2005). In 2004, there were 43,147 cooperatives with a total of 136,299,943 members, 7.89% of penetration, and US\$ 707,827,974,613 of savings in 91 countries. In Europe, many important international banks began as cooperatives: Rabobank (Netherlands), DG Bank (Germany), and Caja Laboral Popular (Spain). Survival of these institutions depends among other things the presence of governance structures, just as there are in corporations.

Co-operative development agencies and sectoral bodies such as the World Council of Credit Unions (WOCCU) work to improve governance standards among credit unions (Shaw, 2006). A series of good practice guidelines and governance codes as well as relevant training programmes have been developed and delivered (WOCCU, 2006). They also promote the formation of national associations to advocate issues affecting cooperatives on behalf of their members, influence policy and demand responsive governance from local and state entities. WOCCU shares the concern by Consultative Group to Assist the Poor (CGAP) on the need to raise standards of governance for boards as captured here under:

“Good corporate governance stems from clearly defined roles and responsibilities of the board of directors, committees and senior managers. It

also stems from codes of conduct which directors and staff at every level of the organization signs on to respect in the completion of their tasks. Sound bylaws and policies seek to avoid conflicts of interest and provide mechanisms for dispute resolution where they arise. While many factors contribute to the governance of an institution, good governance begins and ends with the board (WOCCU, 2005).”

This concern of both WOCCU and CGAP visit the cooperatives in many less developed countries which experience serious governance problems, which may be due to the ignorance or complete abandonment of characteristic principles that define cooperatives in general and credit unions in particular (Bee, et al, 2007). However, some of the problems are a result of the conceptual contradictions between good corporate governance and some of the credit union operating principles (Bee, et al, 2007).

Deriving from their dual identity of entrepreneurial and associative nature, co-operatives have always faced complex governance challenges even though there is a well established institutional framework to deal with this (Shaw, 2006). However the starting point has been not a common legal basis but rather shared principles which have provided guidelines as to how co-operatives should be owned and governed. These guidelines have evolved through time (CGAP, 2005).

The studies (Boekhold, 2005; Co-operative Commission, 2001; Develtere, 1994) also confirm that good governance is central to the success and sustainability of co-operatives in the developing as well as in the developed world. Improving board performance and accountability remains a central issue together with improving

engagement from the wider membership. However there are some issues and challenges in terms of corporate governance that are specific to co-operatives in developing countries. These include firstly, extremely low levels of participation by women as members and in the governance structures in their co-operative (Reed, 2002). Secondly, there is a need to develop appropriate training and support for directors in the context of relatively low levels of literacy and related skills. In addition, conflict between members and their boards also appear to be present. This has been fostered by long established practices of placing government nominees on co-operative boards and related patterns of corruption (Taimi, 2000).

The number of SACCOS in the Tanzania Mainland as at November 2007 stood at 4,435, with 765, 931 members. In the end of year 2008, Tanzania had 8,000 cooperative societies facilitating attainment of different socio-economic goals and supporting 1.6 million families and approximately a total of 6.9 million Tanzanians (URT, 2005). In Tanzania, governance standards within co-operative societies have been perceived to be lacking. Recently, a survey of village-level coffee co-operatives (Shaw 2006) reported that low levels of education among cooperative societies leaders especially board members hindered the effective management of the co-operative and was linked to lack of democratic control. The survey also found that in many cases the secretary lacked sufficient education, while the ability to act independently and the lack of control by members meant high levels of fraud and theft committed by the secretary.

Another study (Boekhold 2005) reported that financial controls and record keeping were very weak, and suggested that members should be given education and training

not only on production but also in co-operative affairs. The report also pointed out that there is a great need for Committee members and secretaries to be trained in financial management as a way to create a better performance for the cooperative societies.

Furthermore, URT (2005) pointed out that Cooperatives have failed to meet their objectives due to various problems including those related to governance. The problems include corrupt leadership, misappropriation of funds and theft, untrustworthy management and lack of accountability for members. The governance problem, though inherent in most public entities, is of greater impact on cooperatives since they aim at jointly solving economic problems of poor in communities, and in consequence the nation. The governance problems manifest into failure of the cooperative due to the fact that governing weakness destabilize the foundations of the cooperatives survival.

The Tanzanian government, recognizing the fact that cooperative movement is a reliable instrument to fight against poverty and injustice, established various commissions to analyze the problems and recommend solutions. One of the results of these efforts was Co-operative Reform and Modernization Programme that was intended to formulate implementation strategies and action plan following recommendations made by the Presidential Special Committee on the Revival, Strengthening and Development of Cooperatives in Tanzania. Generally government interventions have also been called for to improve the governance of cooperatives. The Government of Tanzania interventions regarding the cooperative societies are aimed at realizing the following outcomes:-

“Economically strong cooperative societies which are capable of facing competitive challenges; Strong Savings and credit cooperative societies and cooperative banks which will provide better financial services to their members and be a source of capital for other types of cooperatives; A large and empowered cooperative membership through acquisition of education, new knowledge and skills; Good governance and accountability in cooperative societies which will in turn minimize the problems of theft, misappropriation and corruption in cooperatives; Cooperative societies with efficient and cost effective structure which can easily respond to the needs of the members; and effective and efficient cooperative support institutions”(CRMP, 2005:47).

The recommendations made by this Committee also led to promulgation of New Cooperative Development Policy of 2002 and the review of the previous Cooperative Act No. 15 of 1991 from which the current Cooperative Societies Act No 20 of 2003 came into being. The programme was designed to enable co-operatives to become member owned, controlled and economically viable. One of its specific aims is to promote emergence of good governance in co-operatives. Some of the key governance-related challenges identified were inflexible legal environment, weak leadership and management, lack of member engagement and participation as well as lack of internal controls and checks. For example, the lack of internal control and checks were found to have contributed to high levels of dishonesty and corruption. In response, the government has taken supportive actions which include, among other things, making provisions for code of conduct for cooperative management in the cooperative Societies Act No. 20 Of 2003. Cooperative Society’s Rule of 2004 requires each SACCOS to have a supervisory committee charged with

supervisory frame work for SACCOS. The duties of the committee include ensuring that the SACCOS board, committees and employees abide by applicable laws, regulations, bylaws and established policies, to verify accounting and other records of the society, to oversee and receive reports of the internal auditor when appointed, and advise the board and executive employees of the society on good conduct of the business of the society and report directly to members at the general meeting.

1.2 Statement of Research Problem

Cooperatives in Tanzania have long history, dating back to the late 1920s. In the past they played a vital rural and urban economic and social development of the country.

In Tanzania and else where in the world, cooperatives have performed a valuable role which remains as relevant as ever today. Without cooperatives, small producers are left with almost no form of collective organization, at an immense disadvantage when taking their products or crops to the market. Without savings and credit cooperatives (SACCOS), many poor people have no safe home for their savings and no where to go for loans.

In order for cooperatives in Tanzania to meet their potential in future, a comprehensive transformation has been necessary. This has culminated among others, production of a key strategic document, the Cooperative Reform and Modernization Programme (2005-2015). Being a home grown initiative, the document has identified problems of poor management, inappropriate cooperatives structures, corruption and embezzlement, lack of cooperative democracy and education. Therefore, CRMP sets out detailed strategies to overcome these problems, one of them being to promote emergence of good corporate governance and accountability in Cooperative Societies.

The significance of corporate governance principles to an organization cannot be over-emphasized. Very few studies in Tanzania have been directed to the issues of corporate governance let alone in cooperatives. However, significant efforts have been made to improve governance in cooperatives (CRMP, 2005). What is not known for sure is the extent to which cooperatives have adopted the measures to improve governance practices. This study was designed to fill this gap by assessing the extent of adoption of the practices and provide evidence thereof. Four years of implementing the CRMP, little is known about the extent of adoption of the measures to improve governance in cooperatives in general and SACCOS in particular. Therefore this study generally intended to assess the extent of good governance practices adoption in Savings and Credit Cooperative Societies in Dar es Salaam.

1.3 Research Objectives

Generally, the study was designed to assess the extent to which good corporate governance practices have been adopted in Savings and Credit Cooperative Societies in Dar es Salaam.

1.3.1 Specific Objectives

Specific objectives of the research were:

- (i) To assess the extent to which SACCOS have adopted measures to improve adherence to code of conduct by the board and management.
- (ii) To assess the extent to which SACCOS provide opportunities to members' participation in cooperative affairs.

- (iii) To assess the extent to which SACCOS have complied with various regulation that support good governance.

1.4 Research Questions

Generally the study meant to answer the question, “To what extent have the good governance practices been adopted by Savings and Credit Cooperative Societies in Dar es Salaam?”

1.4.1 Specific Questions

- (i) To what extent SACCOS have adopted measures to improve adherence to code of conduct by the board and management?
- (ii) To what extent have SACCOS provided opportunities to members’ participation in cooperative affairs?
- (iii) To what extent have SACCO’s various regulation support good governance?

1.5 Relevance of the Research

The significance of corporate governance to an organization cannot be over-emphasized. Very few studies in Tanzania have been directed to the issues of corporate governance let alone in cooperatives. However, significant efforts have been made to improve governance in cooperatives (CRMP, 2005). What is not known for sure is the extent to which cooperatives have adopted the measures to improve governance practices. This study was designed to fill this gap by assessing the extent of practice and provide evidence thereof.

Moreover, this study provides information to cooperative policy makers and institutions interested in cooperative movement, corporate governance and associated lobbyists, researchers and academicians also and hence contribute to the body of knowledge in the fields of Corporate Governance and of Cooperatives management.

1.6 Summary and Organization of the Dissertation

This chapter has introduced the problem that was studied which is corporate governance adoption in cooperatives. General and specific questions have been formulated out of the objectives of the study, the relevance of the study has been narrated and finally the limitations to the study and counter measures have been detailed. The rest of the dissertation is organized as follows: Chapter two provides a review of literature on good corporate governance in cooperatives. The chapter deals with the definitions of key concepts that comprise the key variables of the research problem. It establishes the relevant theories to explain the variables' relationships and logical patterns of issues concerning the accountability and corporate governance practices in cooperatives through conceptual definitions and theories, theoretical analysis and empirical analysis. Chapter three details the methodology employed to carry out the research. Chapter four presents the findings and discussions on the findings. Chapter five is the final chapter which offer the conclusions, recommendations and policy implications of the research.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Overview

This chapter presents a review of literature on good corporate governance practices in cooperatives. It begins with conceptual definitions followed by the relevant theories to explain the variables' relationships and logical patterns of issues concerning the corporate governance practices globally and in Tanzanian cooperative perspective.

2.2 Conceptual Definitions

2.2.1 Cooperative Society

A Cooperative society is association of persons who have voluntarily joined together for the purpose of achieving a common need through the formation of a democratically controlled organization and who make equitable contributions to the capital required for the formation of such an organization, and who accept the risks and the benefits of the undertaking in which they actively participate (Cooperative Societies Act No 20 Of 2003).

2.2.2 Corporate Governance

The relationship between shareholders, creditors, and corporations; between financial markets, institutions and corporations; and between employees and corporations. Corporate governance would also encompass the issue of corporate social responsibility, including such as aspects as the dealings of the firm with respect to culture and the environment" (Claessens 2003:5).

2.2.3 Saccos

A Savings and Credit Cooperative Society (SACCOs) is a cooperative financial institution that is owned and controlled by members, according to democratic principles, for the purpose of encouraging savings and using pooled funds to give loans to its members at reasonable rates of interest and providing related financial services to enable members improve economic and social conditions. They are known by different names in various parts of the world, People's Bank, Credit Savings and Credit Cooperative Unions, Thrift and Credit Cooperatives, *cosa dispanio* (Italy).

2.2.4 Supervisory Committee

Committee established to provide close supervision, inspection, internal check and control of Saccos activities. The committee reports its activities to the Annual General Meeting. (Cooperative Societies Rules and Regulations 2004).

2.2.5 Internal Control System

The whole system of controls, financial and otherwise, Control system established by the management in order to carry on the business of an organisation in an orderly and efficient manner, ensure adherence to management policies, safe-guard assets and secure as far as possible the completeness and accuracy of records.

2.3 Critical Review of Supporting Theories

2.3.1 The Concept of Corporate Governance

The relationship between shareholders, creditors, and corporations; between financial markets, institutions and corporations; and between employees and corporations.

Corporate governance would also encompass the issue of corporate social responsibility, including such as aspects as the dealings of the firm with respect to culture and the environment. Corporate governance also includes the relationships among the many stakeholders involved and the goals for which the corporation is governed. The principal stakeholders are the shareholders/members, management, and the board of directors. Other stakeholders include labor (employees), customers, creditors (e.g., banks, bond holders), suppliers, regulators, and the community at large. For Not-For-Profit Corporations or other membership Organizations the "shareholders" means "members" (Williamson, 2008).

Corporate governance is a multi-faceted subject. An important theme of corporate governance is to ensure the accountability of certain individuals in an organization through mechanisms that try to reduce or eliminate the principal-agent problem. A related but separate thread of discussions focuses on the impact of a corporate governance system in economic efficiency, with a strong emphasis shareholders' welfare. There are yet other aspects to the corporate governance subject, such as the stakeholder view and the corporate governance models around the world (OECD, 2004).

Parties involved in corporate governance include the regulatory body (e.g. the Chief Executive Officer, the board of directors, management and shareholders). Other stakeholders who take part include suppliers, employees, creditors, customers and the community at large. In corporations, the shareholder delegates decision rights to the manager to act in the principal's best interests. This separation of ownership from control implies a loss of effective control by shareholders over managerial decisions.

Partly as a result of this separation between the two parties, a system of corporate governance controls is implemented to assist in aligning the incentives of managers with those of shareholders. With the significant increase in equity holdings of investors, there has been an opportunity for a reversal of the separation of ownership and control problems because ownership is not so diffuse. A board of directors often plays a key role in corporate governance. It is their responsibility to endorse the organization's strategy, develop directional policy, appoint, supervise and remunerate senior executives and to ensure accountability of the organization to its owners and authorities. All parties to corporate governance have an interest, whether direct or indirect, in the effective performance of the organization.

Directors, workers and management receive salaries, benefits and reputation, while shareholders receive capital return. Customers receive goods and services; suppliers receive compensation for their goods or services. In return these individuals provide value in the form of natural, human, social and other forms of capital. A key factor is an individual's decision to participate in an organisation e.g. through providing financial capital and trust that they will receive a fair share of the organisational returns. If some parties are receiving more than their fair return then participants may choose to not continue participating leading to organizational collapse.

2.3.2 Principles of Corporate Governance

Key elements of good corporate governance principles include honesty, trust and integrity, openness, performance orientation, responsibility and accountability, mutual respect, and commitment to the organization. Of importance is how directors and management develop a model of governance that aligns the values of the

corporate participants and then evaluate this model periodically for its effectiveness. In particular, senior executives should conduct themselves honestly and ethically, especially concerning actual or apparent conflicts of interest, and disclosure in financial reports.

Commonly accepted principles of corporate governance include:

- (a) Rights and equitable treatment of shareholders: Organizations should respect the rights of shareholders and help shareholders to exercise those rights. They can help shareholders exercise their rights by effectively communicating information that is understandable and accessible and encouraging shareholders to participate in general meetings.
- (b) Interests of other stakeholders: Organizations should recognize that they have legal and other obligations to all legitimate stakeholders.
- (c) Role and responsibilities of the board: The board needs a range of skills and understanding to be able to deal with various business issues and have the ability to review and challenge management performance. It needs to be of sufficient size and have an appropriate level of commitment to fulfill its responsibilities and duties. There are issues about the appropriate mix of executive and non-executive directors.
- (d) Integrity and ethical behavior: Ethical and responsible decision making is not only important for public relations, but it is also a necessary element in risk management and avoiding lawsuits. Organizations should develop a code of conduct for their directors and executives that promotes ethical and responsible decision making. It is important to understand, though, that reliance by organisation on the integrity and ethics of individuals is bound to eventual

failure. Because of this, many organizations establish Compliance and Ethics Programmes to minimize the risk that the firm steps outside of ethical and legal boundaries.

- (e) Disclosure and transparency: Organizations should clarify and make publicly known the roles and responsibilities of board and management to provide shareholders with a level of accountability. They should also implement procedures to independently verify and safeguard the integrity of the company's financial reporting. Disclosure of material matters concerning the organization should be timely and balanced to ensure that all investors have access to clear, factual information.

Issues involving corporate governance principles include: internal controls and internal auditors; the independence of the entity's external auditors and the quality of their audits; oversight and management of risk; oversight of the preparation of the entity's financial statements; review of the compensation arrangements for the chief executive officer and other senior executives; the resources made available to directors in carrying out their duties; the way in which individuals are nominated for positions on the board; and dividend policy.

2.3.3 Best Practice Corporate Governance Codes

Corporate governance principles and codes have been developed in different countries and issued from stock exchanges, corporations, institutional investors, or associations (institutes) of directors and managers with the support of governments and international organizations. The renowned 'Combined Code-Principles of Good Governance and Code of Best Practice (1998)' of UK is derived from the Cadbury

Report (1992), Greenbury Report (1995) and Hampel Report (1998). Today it also constitutes the Turnbull Report (1999), Myers Report (2001) and Higgs Review (2003). Others include the Kings II – South Africa (2002), the Sabanese Oxley Act – US (2002), OECDⁱ - Europe (2004), ECAⁱⁱ – Africa (2002).

As a rule, compliance with these governance recommendations is not mandated by law, although the codes linked to stock exchange listing requirements may have a coercive effect. In Tanzania, DSE rules derive stipulation of best practices by reference to Capital Markets and Securities Corporate Governance Guidelines - CMSCGG (2002).

The scandals that called for these codes such as Maxwell, Enron, Worldcom, Adelphia Communications, AOL, Arthur Andersen, Global Crossing and Tyco were bound not only to UK and US, but also other parts of the world. Professionals and academics have searched extensively for explanations of recent large-scale financial failures. Although most of this attention has been devoted to prominent cases in the world's richest nations, developing countries have not been immune from such difficulties (Wanyama, Burton and Helliard, 2006). Clearly, poor corporate governance practices could be a cause of or a contributory factor to these scandals and governments and private sector organizations in many countries have made efforts to promote high standards of behavior. This renewed interest in improving corporate behavior is reflected in the emergence of numerous governance guidelines and codes.

The particular importance of a robust corporate governance regime in countries is evident in the fact that several recent studies have suggested that a strong system is

necessary to encourage inward investment and nourish long-term economic growth. A recent analysis of Nigeria by Okike (2007:188) reports that while efforts to improve governance standards in Africa are “commendable,” endemic corruption still exists and any improvements in practices will be dependent on strong enforcement mechanisms; de jure codes of conduct alone will not be sufficient to bring about necessary changes. Corporate governance regime in Tanzania reflects the relevant laws and requirements of various regulatory and supervisory authorities, such as the DSE, and the Capital Markets and Securities Authority – Tanzania.

2.3.4 Universal Corporate Governance Issues in Cooperative Societies

Cooperative Societies operate in an environment surrounded by communities who depend on them for jobs and tax revenues, customers for quality products and services. All stakeholders have interests in the well being of their corporation/ society. The organizations also operate in environment which is characterized by political interests, markets existence, culture, values, technology, regulations and taxing authorities. The following are the reasons for interest in cooperative governance by the community, members and the management:-

First, the community needs to reassure itself that;(i) Cooperatives business enterprises are viable, sustainable and competitive; (ii) Cooperatives are held accountable and not left to run freely; (iii) Societies are competitively attractive to investments; (iv) Cooperatives are responsible corporate citizens; and (v) Cooperatives comply with legal framework and remain relevant and legitimate in society. Second, the members want to reassure themselves that, the cooperatives

business enterprises operates in a transparent manner, Members rights, fairness and equitable treatment of all investors, There is corporate leadership for efficiency and probity, Cooperatives are responsible, responsive, accountable, transparent, competitive and sustainable.

Finally the Directors/ Executive Committee members are interested in cooperative governance because(i) their roles are becoming increasingly professional and much more demanding;(ii)they need to clearly understand their roles, duties, responsibilities and liabilities within the Cooperative movement; and(iii) they need to have adequate knowledge of the business they direct as well as good corporate governance principles and practices.

The relationship, which directors of a cooperative have with their members, is a very different one from that of a board with its shareholders. As a result cooperative directors have full understanding and knowledge of the operations of the cooperatives movement. But how do cooperatives ensure appropriate and workable balance between the roles of the Executive Committee Members and the roles of management? Another related question concerns the nature and the extent of the responsibility, Should a board ensure strong and effective relationship between the members and their cooperatives or credit unions? In view of the above critical concerns, a cooperative model of governance has been developed by cooperative movement in many nations with the sole purpose of harmonizing SACCOS' operations and relationships between committee members and the management.

In Tanzania, the AGM is the supreme organ which authorizes operationalization of the budgets, it also give cooperatives' borrowing powers and decides on who is to be

in the management committee, the Supervisory management committee bench is above the members. During Annual General Meeting, transparent elections for Executive Committee Members are held under the supervision of the cooperatives officials.

2.3.5 Guidelines and Code of Best Practice for Cooperatives

These are set of standards or guidelines prescribed by a legal entity / committees, putting in place rules that cooperatives are supposed to follow. A model that fit in this group includes regulatory standards. At its heart, is the premise that boards must focus on the ends and management on the means. Boards and committees achieve this by developing and approving policies and then holding management accountable for effectively operating the organization within these parameters; management implement and acts. Indeed, cooperatives have by-laws which provide clear frame work on how they should operate/ manage their affairs. These by-laws are highly guideline based as they talk procedures or policies which can address most challenges experienced by members.

The most outstanding advantage about guideline based model is that they “solve “ governance problems by providing the answers ; they are straight forward and cut through internal squabbles, but they provide these solutions in a blanket way, addressing every governance situation and every committee/ board at every time in the same way. There is definitely a place for standards, guidelines and values in cooperatives enshrined in the cooperative governance. These have led to relatively stronger performance in many cooperatives.

2.3.6 Corporate Governance in Tanzanian Cooperatives Societies

From the early years of its formation with the initiatives of the Rochdale Pioneers with the first consumer cooperative society in England (1844), the cooperative family recognizes the essence of embracing transparency and accountability and thus developed a set of rules which were to be observed as a code of conduct for running a consumer cooperative society. From these early cornerstones, the evolution of today's internationally recognized Cooperative Principles has been inevitable. The cooperative values under the principle based model, (voluntary membership, democratic member control, member economic participation, autonomy and independence, education, training and information, cooperation among cooperatives and concern for community) are key to upholding normalcy and enhancing performance in cooperative fraternity.

These principles outline the fundamental tenets of cooperative direction and control. They have the capacity and have assisted cooperatives to experience peace and reasonable levels of stability. It is the members who control the cooperatives, regardless of the rights and powers of any stakeholder group. To be precise, the membership – based structure of a cooperative is the feature, distinguishing it from an ordinary corporation- and the feature that lies at the core of its success. The organization is run by its members: one person, one vote. Members exercise this control by electing representatives to govern the cooperative on their behalf; the board is therefore elected directly by the members and the elected representatives are accountable to the membership; mechanisms, such as annual and special meetings and reports, always need to be put in place to ensure this. The capital of the cooperative in whole or part is contributed by and is the common property of the

members. Cooperative members can choose to raise capital from external sources, but do so in ways that ensure democratic control by members. While surpluses are allocated to developing the cooperatives, benefiting members (transaction pricing or rebates), providing education and training, and supporting other activities including the sustainable development of their communities. The committees consciously keep its strategies and structure aligned with the cooperative principles and members are kept informed through meetings and represented in and through the election process. Once every year, an open annual meeting is held to inform members on any changes likely to affect their organization.

For the leadership to effectively serve the interests of the members, they need to possess the capability to use finances in the most productive manner while also ensuring that appropriate controls are in place. Supportive actions taken on the side of the Government include making provisions for code of conduct for cooperative management in the Cooperative Societies Act No. 20 of 2003 (The Cooperative Reform and Modernization Programme, 2005: page 14). Under the code of conduct management board are required to fill relevant forms disclosing their personal details/personal history and experience in cooperative leadership, level of education and any business/activities being undertaken. Furthermore each year every member of management board has to fill forms indicating property owned and submitted to the registrar. Thereafter the form has to be read in the annual general meeting by the registrar or his representative. Likewise they are not required to interfere with responsibilities reserved for the executive staff and every elected board member has to attend seminar on cooperative management before assuming their responsibilities. On the other hand the appointment of executive staff is to be based on the competences

in running activities of the cooperative society. In addition to highest scores obtained from an interview, officers seeking executive staff positions shall be vetted through the Registrar. Their application need to be accompanied by a form indicating their level of education, name and address of at least two referees and two guarantors(Sect. 125 part III ;Cooperative Societies' Act No. 20 of 2003).

In the case of SACCOs, the effectiveness of the Board will be boosted with the introduction of a Supervisory Committee (CRMP, 2005) which is provided for in the Cooperative Societies Rules 2004. In the past, the supervisory framework for cooperative societies was provided exclusively by the Cooperative Department and COASCO. One of the weaknesses of this system is that supervision could not be consistently close due to practical limitations. For example the number of cooperatives to be supervised weighs heavily against available internal and external supervisory staff. Because of this, implementation of recommended corrective actions are slowed down or are undermined.

The other weakness is that, cooperatives lack internal capacity and remain fully dependent on the external support to provide solutions. With a Supervisory Committee in place, it should be easier to inculcate a sense of responsibility among the Board for ensuring that their cooperative is properly managed. The external support should come in the form of capacity building and for undertaking more intricate inspections and audit work.

2.4 Empirical Analysis of Relevant Studies

2.4.1 General Studies

There are different schools of thought on corporate governance, such as corporate finance perspective (e.g. Tirole, 2006; Williamson, 2008), the classical agency perspective (e.g. Fama and Jensen, 1983), the economic organization perspective (e.g. Grandori, 2004), the property rights perspective (e.g. Chaddad and Cook, 2004), and the stakeholder perspective (e.g. Cornforth, 2004). Roe (2005) argues that the core problem of corporate governance has a vertical and a horizontal dimension. The vertical dimension is between senior managers and distant shareholders. The focus here is on keeping the senior managers loyal to the shareholders, and competent to the task of managing the firm. The horizontal dimension is between dominant shareholders and dispersed shareholders. The horizontal focus is on preventing or minimizing the shifts in value from dispersed outsiders to controlling inside stockholders.

Becht et al. (2003: 41) discuss a number of issues of corporate governance that often appear in both practical and academic literature. These issues relate to the following questions: Who should participate in corporate governance? How to solve the collective action problem of supervising management? How to regulate takeovers and the actions of large investors? How boards should be structured? How managers' fiduciary duties should be defined? What are appropriate legal actions against managerial abuses? How to discipline the management? Particularly the issue of disciplining management has received much attention in the academic literature on corporate governance. The solution to this agency problem is often a combination of the following disciplinary mechanisms (Becht et al., 2003; Cools, 2005):

Election of a board of directors representing shareholder's interests, to which the CEO is accountable; monitoring of the firm by the market, including the effect of competition on product markets, labor markets and resource markets; the threat of a hostile takeover (in case of the company is under-performing); active and continuous monitoring by a large shareholder; alignment of managerial interests with investors through executive compensation contracts; legislation, as well as codes of conduct.

Williamson (2008: 254) argues that "the board in practice is at a huge disadvantage to the top management of the corporation in information and expertise respects. Thus, whereas the management is involved with the corporation on a full-time basis and has the benefit of accounting, legal, financial, engineering, planning, and managerial staff expertise to track and interpret the past performance of the firm and develop projections for the future, the membership of the board is part-time and lacks firm-specific knowledge in all of these respects." Because of this asymmetric information between board and management, Williamson (2008: 259) emphasizes that delegation is an efficient means by which to assign problems to those with the better training, ability, and/or deeper knowledge of the particulars (to include tacit knowledge acquired through learning by doing).

Organization theory often emphasizes the advantages of delegating decision-making to professional management. The key issue is asymmetric information between principal and agent, in our case between board of directors and management. While the board may have formal authority (partly shared with the general assembly), the real authority may lie with the management due to its superior knowledge of both the firm and the competitive environment.

When the board does not hold real authority, it may better delegate formal authority. Aghion and Tirole (1997), in their theoretical paper on the allocation of formal and real authority, suggest that “the delegation of formal authority to a subordinate will both facilitate the agent’s participation in the organization and foster his incentives to acquire relevant information about the corresponding activities”. However, delegation involves a costly loss of control for the principal. As a result of this trade-off, formal authority will not be delegated for all decisions. Aghion and Tirole (1997) found that formal authority is more likely to be delegated for decisions that (among others) are sufficiently innovative that the principal has not accumulated substantial prior expertise or competencies.

Not all of these issues in the debate on corporate governance are relevant for cooperatives, as they have special ownership and governance features. Hendrikse and Veerman (2004) have identified a number of differences between cooperatives and investor-owned firms. First, in marketing cooperatives farmer-members often depend to a large extent for their income on the performance of the cooperative. The relationship between farmer-member and marketing cooperative is usually characterized by high asset specificity, which leads to high switching costs for the farmer if he has to terminate his membership. Farmers and their boards have a strong incentive to perform their job in controlling the management (Hansmann, 1996).

Second, farmers have invested in their cooperatives, if not on purpose then, at least by the earnings that have been retained by the cooperative. However, cooperatives do not issue shares, or if they do, these shares are not tradable. Thus, again, members and their boards have a strong incentive to supervise the management. Other

differences in corporate governance mechanisms between cooperatives and investor-owned firms relate to disciplining the management (Staatz, 1987; Trechter et al., 1997). Cooperatives do not have external mechanisms for disciplining the management. Unlike listed companies that are scrutinized by the financial media (on behalf of current and potential shareholders, there is no external financial assessment of the performance of the cooperative (and its management). Also the threat of hostile takeover is not available for disciplining the management. Finally, the alignment of managerial interests with members through executive compensation contracts is more complicated in cooperatives compared to listed companies, who can use the share price as a performance measure and can use shares and share options as part of the remuneration package. These differences imply that for disciplining the management cooperatives rely on active and continuous monitoring by the board of directors. Also legislation and codes of conduct may be relatively more important for cooperatives.

The issue of the allocation of formal and real authority and of delegation is particularly relevant for cooperatives. As the board consists of farmers who have no experience in running a large commercial firm and are only part-time board members, and the management has much better information on the key capabilities of the firm as well as on the strategies of its competitors, the board is likely to delegate part of its formal authority to the management. Also the findings of Aghion and Tirole (1997) that formal authority is most likely to be delegated for innovative projects seem to be particularly relevant for cooperatives developing branded product positions in consumer markets. Examples of governance problems in cooperatives include directors becoming rent-seekers, taking steps to make sure that members

cannot participate, becoming self-perpetuating groups, holding meetings without telling members, and giving themselves inappropriate loans. ICA-America estimates that approximately 95% of the co-operatives in the Latin America region do not have mechanisms in place to evaluate the performance of directors.

2.4.2 Empirical Studies in Tanzania

The board of directors is a critical link between members of the co-operative and the managers. Among its key functions are establishing performance targets, the employment/dismissal of management, definition and validation of remuneration policy, and oversight of overall co-operative operations. The role, cohesion, solidarity and integrity of the board of directors are essential elements for the performance and relevance of the co-operative within the market place and its broader social setting. Therefore it is key to have clear procedures for the selection and election of directors, plus to provide induction programmes and on-going training and professional development. (Show 2006)

If directors are not full-time positions, lack the relevant education to exercise their functions, cannot read balance sheets, etc., then managers can exploit these gaps in many ways, including the demutualization of co-operatives when it brings economic benefits to managers. Managers can get away with abuse if they exercise unchecked powers. Here, external directors play a fundamental role: bringing commercial acumen and a challenging ability to management actions and decisions (ECA 2002).

However, it is very common to confuse the responsibilities of each actor, even among the office holders. In Kenya, for example, the Supervisory Committee oversees that the Board of Directors performs the functions that it is expected to

carry out, and reports its findings to shareholders. However, candidates who are appointed to the Supervisory Committee as a rule seek office to the Board of Directors, which points to the perceived inferiority of their oversight office in relation to the management functions of the Board of Directors. (Wanyama, et al 2006). There is a pressing need to address the corruption problem that arises from having board of directors performing functions on a voluntary basis. But even if the work of directors continues on a voluntary basis, the co-operative annual report should specify the benefits and entitlements that they receive in compensation. The point is to promote transparency and not whether services should be voluntary or under a remuneration policy.

The Cooperative reform Programmeme has proposed the following intervention to promote good governance in Cooperative societies (i) Initiate process of election of competent leaders (ii) facilitate training in good governance of cooperative board leaders and selected membership;(iii) Institute an effective inspection and audit system;(iv) evolve system of employment which is based on fixed term contract in all societies;(v)employ competent personnel(define necessary qualification at different levels);(vi)screen leadership and management following procedures introduced by code of conduct;(vii) take quick appropriate legal action where necessary(use of surcharge, special prosecutors).

2.5 Research Gap

While studies have been conducted on corporate governance in cooperatives, little is known of studies that assess the level of adoption of corporate governance by SACCOs. The studies have been around various issues of corporate governance

including financial management by Hendrikse and Veerman (2004), corporate governance challenges by Aghion and Tirole (1997) and issues of procedure for board and directors selection and training by Show (2006) among others. Furthermore, there is scanty knowledge about whether comparative studies to compare the level of adoption of corporate governance measures between community based SACCOs and work based SACCOs have been carried out.

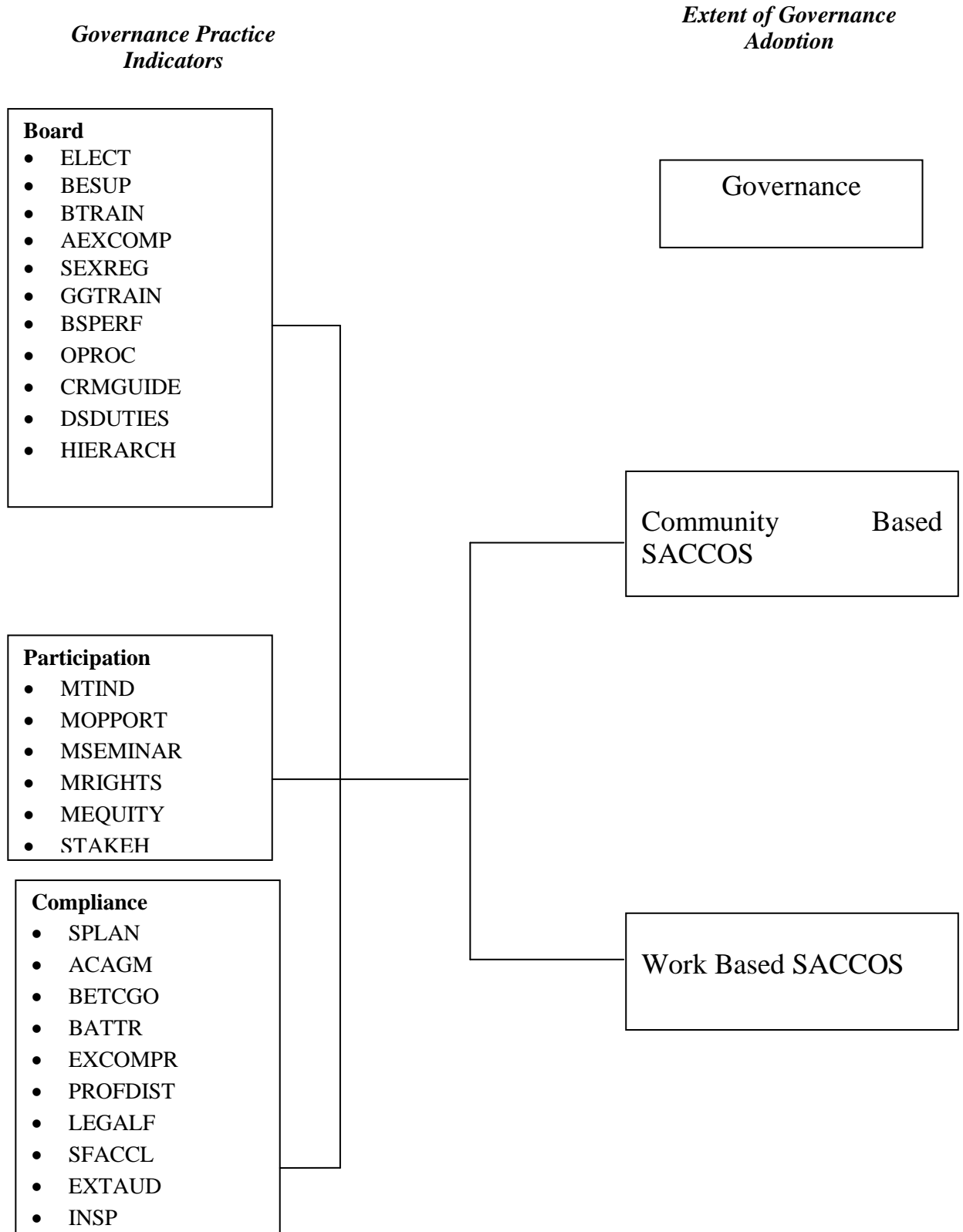


Figure 2.5.2 Conceptual Framework
Source: Constructed by Researcher, 2010

2.6 Hypotheses

Ho1. There is no significant difference in the extent to which SACCOS have adopted code of conduct for boards and management between work based and community based SACCOS.

Ho2. There is no significant difference in the extent to which SACCOS have adopted practices to foster member participation between work based and community based SACCOS.

Ho3. There is no significant difference in the extent to which SACCOS have complied with various regulations between work based and community based SACCOS.

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Overview

This chapter describes the design of the research, the strategies employed, the population and sampling procedures, variables and measurement procedures, methods of data collection, data analysis. Section 3.2 covers research design and strategy, section 3.3 describes the population of the study while section 3.4 indicates study area and section 3.5 covers the sampling frame.

3.2 Research Design and Strategy

In conducting this research, a descriptive survey design was used. The descriptive survey design was also of benefit as it allowed description of particular characteristics of the population, at a point in time or at varying times for comparative purposes. A total of 25 SACCOS, 8 from Kinondoni municipality, 11 from Ilala municipality and 6 from Temeke municipality in Dar es Salaam region were used systematically selected. A questionnaire was administered to one respondent per SACCOS. Respondents were picked either from management, employees or from members depending on the availability. Both descriptive and independent two sample t-test were used to analyze the data.

3.3 Population of the Study

Population consisted of all the registered cooperatives in Tanzania. According to the yearly report issued by the Ministry of Agriculture, Food and Cooperatives-Cooperative department as at 30th June 2008 registered SACCOS were 4,780 with a total of 713,699 members. Table 3.1 shows their distribution across regions Dar es

salaam had 457 SACCOS and 100,053 members is second to Mwanza which had 606 registered SACCOS with 69,072 members. The main target respondents were SACCO's members, some of whom served in the supervisory committees, board and executive committees and employees.

3.4 Area of Study

The study was conveniently limited to SACCOS in Dar es Salaam. The main reason was affordability in terms of finances and time

Table 3.1: Registered SACCOS as at 30th June 2008

REGION	NO. OF SACCOS	TOTAL MEMBERS
ARUSHA	224	45,943
DSM	457	100,053
DODOMA	158	35,636
IRINGA	185	31,489
KAGERA	262	38,208
KIGOMA	178	25,292
KILIMANJARO	212	73,078
LINDI	112	10,121
MARA	114	9,809
MANYARA	226	29,892
MBEYA	298	45,449
MOROGORO	314	41,682
MTWARA	138	13,037
MWANZA	606	69,072
PWANI	271	15,431
RUKWA	95	10,202
RUVUMA	81	37,955
SHINYANGA	387	36,758
SINGIDA	95	12,516
TABORA	193	12,678
TANGA	174	19,398
TOTAL	4,780	713,699

Source: URT, 2008

3.5 Sampling Frame

The population in 3.3 was reduced to SACCOS registered and operating in Dar es Salaam only. This criterion led to a revised population of 457 SACCOS with total population of 100,053 members. Table 3.2 shows the distribution of SACCOS across the three municipalities in Dar es salaam. Kinondoni and Ilala District had 150 and 198 registered SACCOS respectively while Temeke had 109 as of June 2008. For the purpose of this research these SACCOS are further divided among work based, community based and whether the SACCOS are active or dormant.

The majority of SACCOS in Kinondoni and Temeke municipalities are Community based (77% and 57% respectively) while most of those in Ilala are work based (55%). Of the SACCOS in each municipality the active ones were 79 (52.7%) SACCOS in Kinondoni, 109 (55.1%) SACCOS in Ilala and 71(65.1%) SACCOS in Temeke. Then of the active SACCOS 259 (56.7%), those considered in the sampling frame were distributed as follows: Kinondoni 79 (30.5%), Ilala 109 (42.1%) and Temeke 71 (27.4%).

Table 3.2 SACCOS Classification

	NO. OF SACCOS	ACTIVE SACCOS	DORMANT SACCOS	WORK BASED	COMMUNITY BASED
KINONDONI	150	79	71	34	116
ILALA	198	109	89	110	88
TEMEKE	109	71	38	47	62
TOTAL	457	259	198	191	266

Source: Field Survey December (2009)

3.6 Sampling Design and Procedures

The nature of the problem required SACCOS which have been in operation long enough to have instituted governance measures. Secondly it was thought that a comparison between work based and community based SACCOS would enrich our analysis. Thus the active SACCOS were split into work based and community based SACCOS to ensure representation. Then SACCOS registered before 2002 were chosen. This approach reduced the sample further to 138 SACCOS with at least 5 years of operation by the time of this study. It is important to note here that dormant SACCOS are those that are still in the register but not operating and the legal procedures for liquidating them have not been made.

Table 3.3 presents SACCOS with at least five years of operation and their distribution across three municipalities and whether they are work based or community based SACCOS. From the refined lists, a total 25 SACCOS were systematically selected. For Kinondoni the first SACCOS on the list of active community based and work based SACCOS was picked followed by every 6th and 7th SACCOS respectively down the list. This procedure led to 8 SACCOS in total for the municipality split equally between community and work based categories. For Ilala the first SACCOS on each list of community and work based SACCOS was picked followed by every 4th and 7th SACCOS. This led to 11 SACCOS split into 3 and 8 community based and work based respectively.

For Temeke same procedure as the one for Kinondoni was applied leading to 3 SACCOS in each category (6 SACCOS) in all. Table 3.4 shows the result. Somehow in implementing this sample insignificant bias was introduced by substituting

SACCOS when its location was found to be very far in the outskirts. This was necessary for both time and financial constraints.

Within a given SACCOS one respondent was conveniently targeted from among the following : The Accountant, Manager and Employee and also bearing in mind that the person must have been in office for more than a year to have a proper understanding of activities of the SACCOS. The selection of members considered membership period from five years as reasonable time to have the overview of the governance practices in the society.

Table 3.3: Active SACCOS with more than five years

DISTRICT	TOTAL	WORK BASED	COMMUNITY BASED
KINONDONI	42	20	22
ILALA	63	49	14
TEMEKE	33	18	15
TOTAL	138	87	51

Source: Collected from regional register in the assistant registrar –Cooperatives office

Table 3.4 Societies Visited in each Municipal

DISTRICT	WORK BASED	COMMUNITYBASED	TOTAL
KINONDONI	4	4	8
ILALA	8	3	11
TEMEKE	3	3	6
TOTAL	15	10	25

Source: field survey December 2009

3.7 Data Collection

The study collected mainly primary data based on a structured questionnaire.

3.7.1 Questionnaire Design

The questionnaire was designed to have 4 main sections. Section I was designed to collect information on the SACCOS and its respondents. It covered location and type of the SACCOS and the engagement of the respondent i.e whether the respondent is the Accountant, manager, member or employee. Sections II to IV presented several constructs aimed at testing for various governance practices in the sampled SACCOS. It covered the code of conduct for the board and management (Section II), membership participation (Section III), compliance to various regulations(section IV). Respondents were asked to indicate the extent of their agreement or disagreement to the specified constructs under each section ranging from strongly disagree (1) to strongly agree (5).

3.7.2 Questionnaire Administration

The questionnaire was self administered. The researcher facilitated the respondents in answering the questionnaires. This approach of administering the questionnaire was employed so as to enhance the response rate, ensuring that the study receives relevant information and that the respondents have clarity whenever needed in responding to the questionnaire.

3.8 Data Processing and Analysis

3.8.1 Data Processing

Questionnaires were assessed for consistence and completeness. All 25 questionnaires were found to be useful. Data were then collected and entered into SPSS ready for analysis.

3.8.2 Reliability of the Instrument

1. The data was subjected to scale tests for reliability. The test produced a Cronbach's Alpha of 0.951. All inter-item correlation coefficients are higher than 0.3 except for a few items namely hierarchy, SACCOS has strategic plan, external auditor's independence, SACCOS accounts are prepared by leaders. Only 3 items – if deleted could improve the Cronbach's alpha by between 0.01 and 0.08. These are SACCOS has a strategic plan, independence of external auditors and final accounts are prepared by leaders. It was concluded that comparing to the minimum cut off point of $\alpha=0.7$ the instrument was reliable. Since the Cronbach's alpha is already 0.951 there was no need to delete any item.

3.8.3 Validity

To validate the instrument, a panel of cooperative society auditors was asked to review the questionnaire and advise on the areas of improvement. This process was done twice to validate the contents of the questionnaire.

3.8.4 Data Analysis

Cross tabulation was used to handle the distribution of sampled SACCOS based on location and type. The same was also done on the job position of the respondents. Data on sections II –IV were handled in the following manner. First, for each construct, respondents who scored “agree” (4) and “strongly agree” (5) were re-scored 1 representing “agreeing” score, 0 otherwise. This was to enable the researcher to calculate the percentage of respondents agreeing to the construct. Frequencies were then prepared for each category in each section and bar charts were prepared isolating community based from work based SACCOS. This approach was

necessary to facilitate comparison of the extent of governance between the two groups of SACCOS.

Secondly, mean scores were computed for each category and compared across SACCOS type to determine whether the extent of adoption of governance principles is statistically different between the two groups of SACCOS.

CHAPTER FOUR

4.0 FINDINGS AND DISCUSSION

4.1 Overview

This chapter presents the findings and discussion Section 4.2 covers SACCOS and respondents characteristics. Section 4.3 covers the code of conduct of Board and Management, Section 4.4 presents results on members participation and, Section 4.5 presents results for compliance. Finally, Section 4.6 presents discussion of the results.

4.2 Descriptive Statistics

The study assessed the extent of corporate governance adoption by a total of 25 work based SACCOS and community based SACCOs.

4.2.1 Distribution of SACCOS

From Kinondoni Municipality, four (4) work based SACCOS and four (4) community based SACCOS were sampled to make a total of eight (8) SACCOS. Eight work based SACCOS and three (3) community based SACCOs were sampled from Ilala to make a total of eleven (11) SACCOs from this municipality. Temeke municipality had three (3) work based and three (3) community based SACCOS to make a total of six (6) SACCOS. There were in total fifteen (15) work based SACCOS and ten (10) community based SACCOs from all three municipalities. This distribution can be seen on Table 4.1:

Table 4.1 Distribution of SACCOS

Municipality	Types of SACCOS		
	Work based	Community Based	Total
Kinondoni	4	4	8
Ilala	8	3	11
Temeke	3	3	6
Total	15	10	25

Source: Field data (2010)

The research had a total of 25 respondents. From work based SACCOS there were three (3) accountants, six (6) managers, three (3) employees and three (3) members to make a total of fifteen (15) respondents. From community based SACCOS, there was no accountant respondent, two (2) managers, three (3) employees and five (5) members to make a total often (10) respondents.

Table 4.2 Distribution of Respondents

Position of Respondent	Type of SACCOS		
	Work based	Community based	Total
Accountant	3	0	3
Manager	6	2	8
Employee	3	3	6
Member	3	5	8
Total	15	10	25

Source: Field data (2010)

4.3 Code of Conduct, Board and Management

The premise of code of conduct in corporate governance is to ensure that the board focuses on the ends, meaning the ultimate objective(s) of the cooperative while the management concentrates on the means (strategies and resources to execute short term and long term plans to reach the cooperative objectives. The study revealed that all work based SACCO's conducts election as per code of conduct. Both work based and community based SACCOS have a hierarchy of AGM, Board, Supervisory Committee and Management. 80% both SACCOS have in place a division and segregation of duties among board and management. Other issues of code of conduct adherence by the board and management are depicted on the columnar chart in Figure 4.1

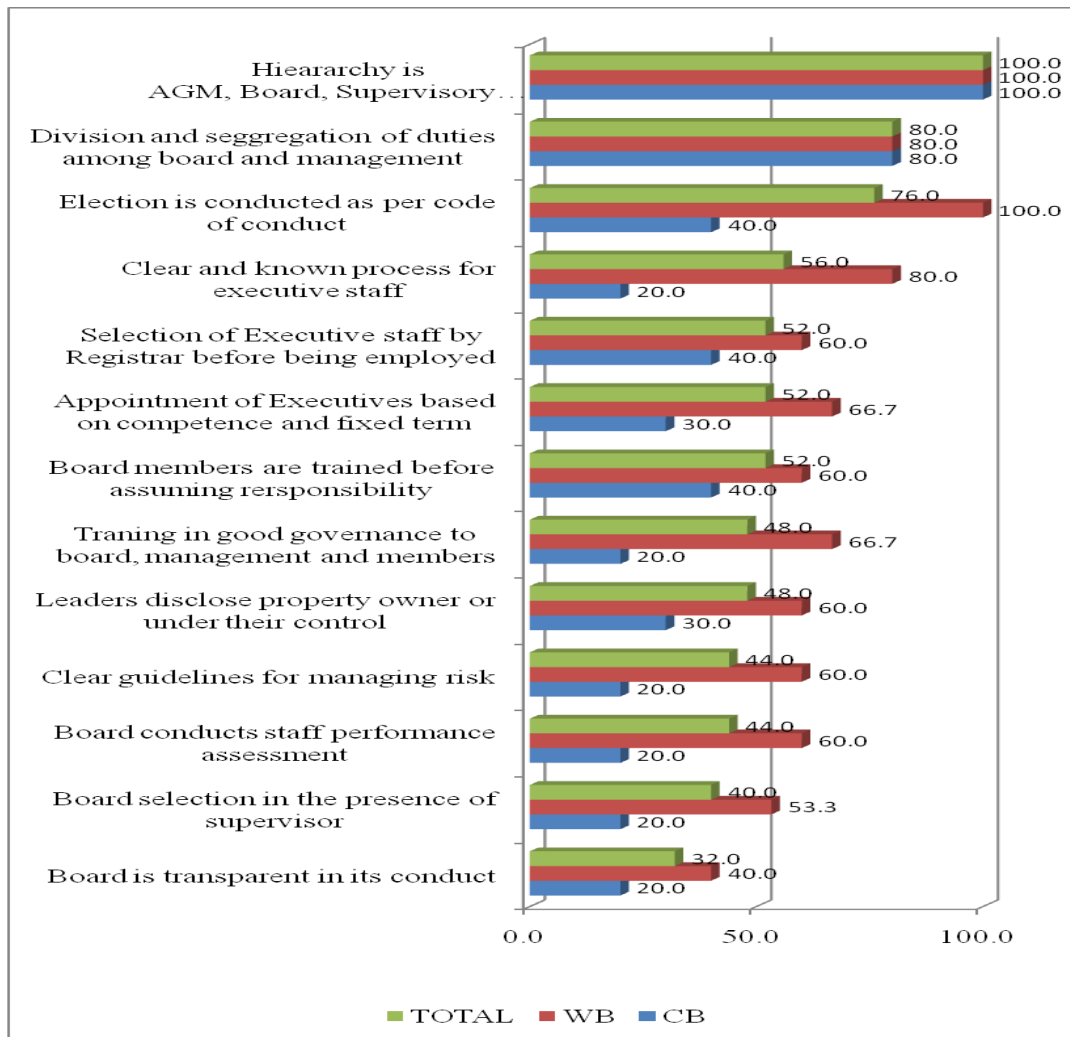


Figure 4.1: Code of Conduct of the Board and Management

Source: Field data (2010)

Work based SACCOS indicates strong adherence to the code of conduct of the board and management from the bar chart with 40% acceptance as the lowest percentage for transparency of board in conducting its affairs. In contrast, the community based SACCOS scored the lowest agreeing responses at 20% for six issues in board transparency, board selection under supervision, board conducting staff performance assesment, clear guidelines for managing risks, training in good governance and availability of clear and known process for executive staff while the work based SACCOS scored 53.3%, 60%, 66.7%, and 80% successively for former issues.

Both the work based and community based SACCOS achieved above average responses on training of board members before assuming responsibility 52%, selection of executive staff by registrar before being employed 52%, clear and known process for executive staff 56%, election conducted as per code of conduct 76%, division and segregation of duties among board and management 80% and 100% for hierarchy structure.

Ho1: There is no significant difference in the extent to which SACCOS have adopted code of conduct for boards and management between work based and community based SACCOS.

In testing null hypothesis one, the independent two sample test for comparison of mean was carried out and the results are presented in Table 4.3.

Table 4.3 Code of Conduct for Board and Management

Statement	Mean scores			T-test p-values
	WB (N=15)	CB (N=10)		
Election is conducted as per code of conduct	4.27	3.40	0.000	*
Board selection in the presence of supervisor	3.53	3.20	0.091	*
Board is transparent in its conduct	3.20	2.50	0.044	*
Leaders disclose property owner or under their control	3.20	2.00	0.021	*
Board members are trained before assuming responsibility	3.40	3.00	0.323	
Appointment of Executives based on competence and fixed term	3.80	3.10	0.142	
Selection of Executive staff by Registrar before being employed	3.67	3.30	0.252	
Training in good governance to board, management and members	3.47	2.10	0.002	*
Board conducts staff performance assessment	3.33	2.50	0.030	*
Clear and known process for executive staff	3.80	2.80	0.056	
Clear guidelines for managing risk	3.40	2.50	0.050	
Division and segregation of duties among board and management	3.87	3.80	0.832	
Hierarchy is AGM, Board, Supervisory Committee and Management	4.47	4.60	0.533	
Overall score for Code of conduct for board and management	3.65	2.98	0.017	*

Note: Lavene's test of equality of variances was statistically significant at 0.05 levels for Board selection in the presence of supervisor. Variances for the rest were not statistically significantly different, and therefore equality of variances was assumed.

* significant at .05 level; ** significant at 0.01 level (two tail t-test)

Source: Field Data (2010)

Since the overall score for code of conduct for board and management is 0.017 is lower than 0.05, the null hypothesis one is rejected. Therefore, the testable

statement that “There is no significant difference in the extent to which SACCOS have adopted code of conduct for boards and management between work based and community based SACCOS.” was rejected. The significant attributes representing significant differences were: election per code of conduct, board transparency, disclosure of property, training for leaders and staff performance assessment.

4.4 Members’ Participation in Cooperative Affairs

The cooperative societies Act (2003) dictate for members participation that, “Co-operatives are democratic organizations controlled by their members, who actively participate in setting policies and making decisions. Men and women serving as elected representatives are accountable to the membership. Members contribute equitably to, and democratically control, the capital of their co-operative.” The study assessed the extent of members’ participation in cooperative affairs on the issues of training and seminars, contribution in general meeting, membership rights and equity and other stakeholders’ interests. It was found in the analysis that there are above average acceptance levels on issues pertaining to members’ participation in cooperative affairs. Opportunities to contribute at general meetings by members scored the highest with 64% acceptance levels in all SACCOS.

Observation of members’ rights again received 64% acceptance, followed by recognition of stakeholders’ interests with 60% and equitable treatment of members. Sensitization seminars to members and induction training to members both scored aggregate 52% acceptance by the cooperatives. The columnar chart in figure 4.2 presents the results. It shows that there are notable differences between work-based

and community- based SACCOS in implementing measures that foster members participation.

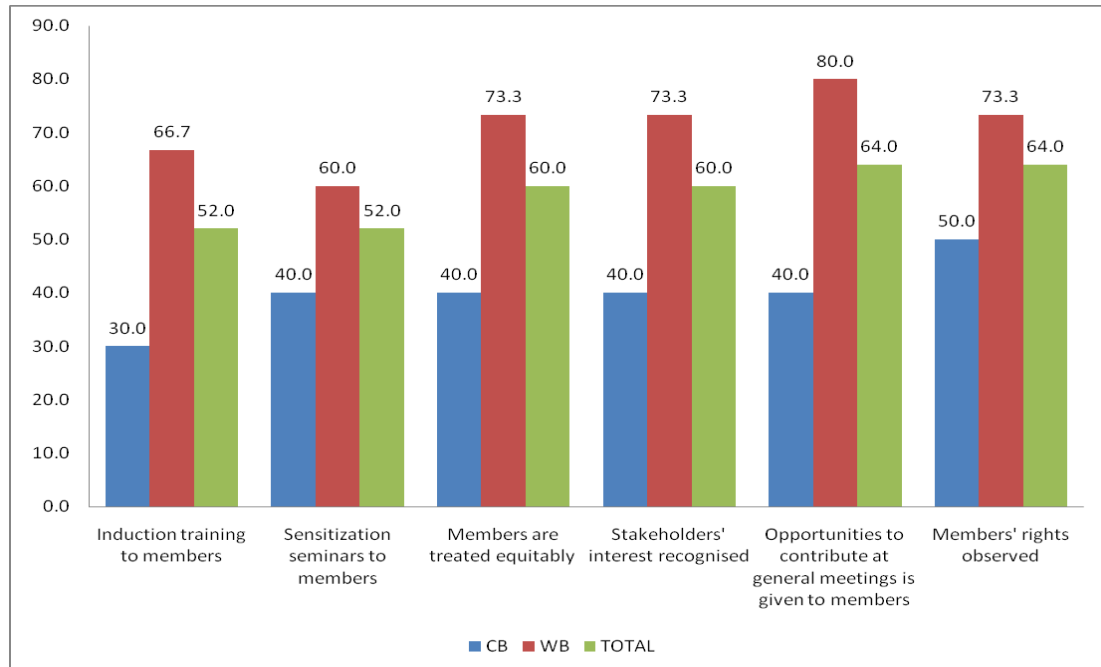


Figure 4.2 Members' participation in Cooperative affairs

Source: Field data (2010)

For example , the work based SACCOS scored higher acceptance percentages than their counterpart community based SACCOS. Giving opportunities to members in contributing in general meetings which scored the highest percentage in aggregate, the work based SACCOS had a 80% acceptance while the community based SACCOS had 40% acceptance level. The community based SACCOS scored highest reponse rate on observation of members rights at 50% while their counterparts scored 73.3% acceptance level on the same issue. The lowest acceptance level was on induction training to members by the community based SACCOS which scored 30% while for work based SACCOS the lowest acceptance level was with sensitization

seminars to members at 60%.The second null hypothesis was tested and the results of the test are indicated on Table 4.4.

Ho2. There is no significant difference in the extent to which SACCOS have adopted practices to foster member participation between work based and community based SACCOS.

Table 4.4 Members Participation

Statement	Mean scores		T-test p-values
	WB (N=15)	CB (N=10)	
Induction training to members	3.60	2.70	0.019 *
Opportunities to contribute at general meetings is given to members	3.93	3.50	0.111
Sensitization seminars to members	3.40	3.30	0.754
Members' rights observed	3.73	3.30	0.172
Members are treated equitably	3.47	2.80	0.103
Stakeholders' interest recognized	3.73	3.40	0.103
Overall score for Members Participation	3.64	3.17	0.097 ***

Note: Lavene's test of equality of variances was not statistically significant in all statements.

Therefore equality of variances was assumed.

* significant at .05 level; ***Significant at 0.10 level

Source: field Data (2010)

Overall, the second null hypothesis “There is no significant difference in the extent to which SACCOS have adopted practices to foster member participation between work based and community based SACCO”; is rejected. Implying that there are statistically significant differences in the adoption of measures that foster members participation in SACCOS affairs between work-based and community-based SACCOS. Out of the seven items tested there is also enough evidence to support that

the two types of SACCOS are statistically significantly different providing indication training to its members.

4.5 Compliance With Various Regulations

In financial accounting, an audit independently assesses the fairness by which a company's (in this case a credit cooperatives) financial statements are presented by its management. It is performed by competent, independent and objective person or persons, known as auditors or accountants, who then issue an auditor's report on the results of the audit. The objective of the ordinary audit of financial statements is the expression of an opinion of the fairness with which they present fairly, in all respects, financial position, result of operations, and its cash flows.

The essentials for effective auditing include independence, staffing and training, relationships, due care, planning, controlling and recording, evaluation of the internal control system, evidence and reporting and follow-up¹. Audit as one of the core principles of corporate governance engross internal controls and internal auditors, the independence of the entity's external auditors and the quality of their audits and oversight and management of risk. To assess its existence and support to good governance, the study examined whether leaders prepare society's final accounts, independence of external auditors for the cooperative and inspection by cooperative official/supervisory committee is done.

The study also assessed other issues regarding good governance as stipulated by Co-operative Reform and Modernization Program of 2005 particularly with regard to

¹ Standard 300 of the SPPIA

compliance. These issues include presence of a strategic plan for the cooperative, audited accounts presented in the AGM, availability of records on attendance of meeting for board of directors, review of the compensation arrangements for executive staff, existence of proper profit distribution processes and procedures and cooperative compliance to legal framework and remain relevant and legitimate in society. Strategic plan is a roadmap that maps a clear path for the cooperatives present condition and a vision for the future, stating the mission, core values, strategic objectives and goals and a budgeted work-plan and evaluation of performance for achievement of the stated objective.

In aggregate, the SACCOS scored the highest levels of acceptance for presentation of audited accounts at the AGM at 100%, followed by 84% acceptance level for compliance of SACCOS with legal framework, and independency of external auditors at 80% acceptance. Lowest score was having in place a strategic plan where SACCOS scored only 4% in aggregate. The findings are highly interesting and are presented Figure 4.3.

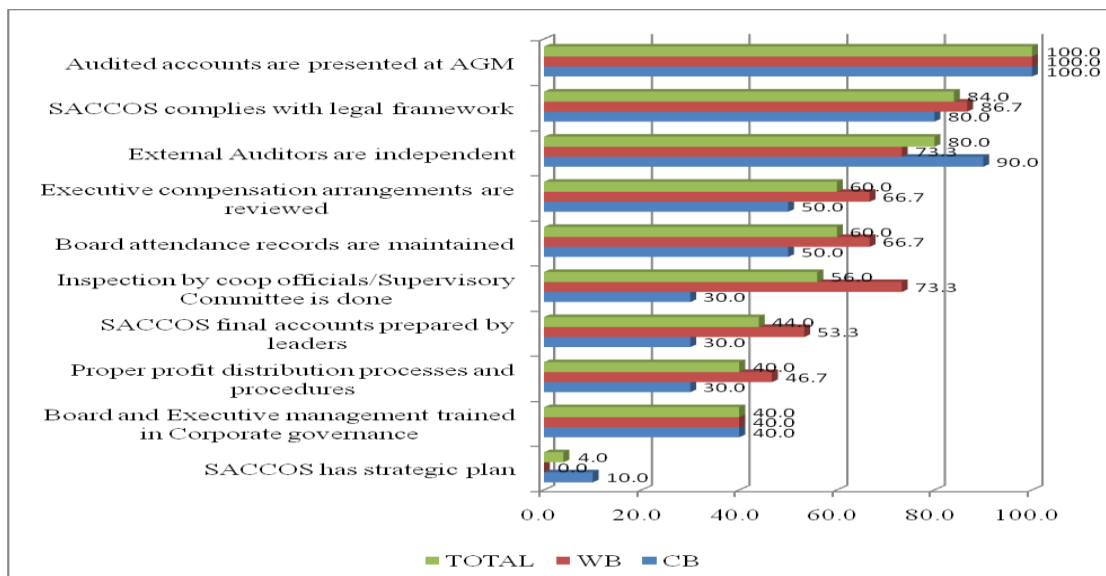


Figure 4.3 Audit Inspection and Compliance

Source: Field Data (2010)

Comparing the trend between the community based SACCOS and work based SACCOS, the difference has not been very pronounced. The community based SACCOS scored the highest in independency of external auditors at 90% level of acceptance while the work based scored 73.3% on the same. The work based SACCOS scored the highest for compliance of SACCOS with the legal framework at 86.7% while the community based SACCOS scored 80% level of acceptance on the same. On the lowest end, the work based SACCOS scored 0% acceptance with regard to presence plan while the community based scored a 10% acceptance. In testing the third hypothesis, Table 4.5 indicates the findings:-

Ho3. There is no significant difference in the extent to which SACCOS have complied with various regulations between work based and community based SACCOS.

Table 4.5 Compliance

Statement	Mean scores		T-test p-values
	WB (N=15)	CB (N=10)	
SACCOS has strategic plan	2.20	1.80	0.188
Audited accounts are presented at AGM	4.40	4.20	0.296
Board and Executive management trained in Corporate governance	3.13	3.10	0.924
Board attendance records are maintained	3.67	3.80	0.757
Executive compensation arrangements	3.67	3.50	0.539
Proper profit distribution processes and procedures	2.93	2.60	0.426
SACCOS complies with legal framework	3.87	3.90	0.924
SACCOS final accounts prepared by leaders	3.13	2.80	0.405
External Auditors are independent	4.00	4.10	0.764
Inspection by coop officials/Supervisory	3.33	2.60	0.152
Overall score for compliance	3.43	3.24	0.307

Note: Lavene's test of equality of variances was statistically significant at 0.05 level

for "Audited accounts are presented at AGM" at .05 level. Variances for rest were not statistically significantly difference, and therefore equality of variances was assumed.

** significant at .05 level; ** significant at 0.1 level (two tail t-test)*

Source: field data 2010

Since the p-value for the overall score for compliance is 0.307 and significance is assumed at $P < 0.05$, then the null hypothesis "There is no significant difference in the extent to which SACCOS have complied with various regulations between work based and community based SACCOS" is accepted. This implies that there is not enough evidence to suggest that the two types of SACCOS differ significantly in complying with requirements regarding audit, inspection as well as executive compensation.

4.6 Discussion of Findings

Studies have argued that members and boards of cooperatives have incentive to perform their job in controlling the management (Hansmann, 1996) due to high switching cost and investment made by members in the cooperatives (Hendrikse and Veerman, 2004). In general, the study indicates a considerable level of members and board involvement in issues of corporate governance, which support the findings of the previous studies.

Financial reports are crucial components for an entity such as a SACCOS. Absence of external mechanism to discipline the management or assess the financial performance of the cooperatives has been underscored. However, the study found out that there are independent external auditors who audit the financial statements of the SACCOS. It was also found that the audit reports are presented at the AGM. The

competence of the board has been noted as a serious challenge for cooperatives in implementing corporate governance measures particularly due to their lack of formal training and experience in supervision of the management. While the study found that on average appointment of the executive staff is based on competence, the executive staffs do not receive training pre engagement.

However, Show (2006) propose that it is essential to have clear procedures for the selection and election of directors plus provision of induction programmes and on going training and professional development. The study indicates in aggregate there is a clear and known processes for executive staff.

Problems facing cooperatives as regards to corporate governance have been flagged such as directors become rent seekers, members non participation, meetings without telling members, financial misuse, absence of performance measures. This study found low levels of acceptance in transparency of management and the board, measures to assess staff performance among others.

CHAPTER FIVE

5.0 SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Overview

This study aimed firstly, to assess the extent to which SACCOS have adopted measures to improve adherence to code of conduct by the board and management; second to assess the extent to which SACCOS provide opportunities to members' participation in cooperative affairs and thirdly to assess the extent to which SACCOS inspection and have complied with various regulations regarding to governance principles. Generally, the study intended to assess the extent to which good corporate governance practices have been adopted in Savings and Credit Cooperative Societies. The study utilized descriptive survey quantitative methods of data collection and analysis. The target population constituted of all SACCOS within Dar es Salaam. A sample of 25 SACCOS were systematically selected while the respondents were to conveniently selected to include the , members, executive staff, and employees. A self-administered structured questionnaire was used to collect data from the field. Bar chart as well as independent two sample t-test techniques was used to analyze the data.

5.2 Summary of the Key Findings

The study found that the levels of acceptance for adherence to code of conduct above average particularly for division and segregation of duties for board, election is conducted, clear and known process for board, appointment of executive staff based on competence and training of the board prior to their engagement. On the

downside lack of measurements for staff performance assessment and transparency of the board and management are highlighted. On testing the null hypothesis to compare the work based SACCOS with community based SACCOS, the statement “There is no significant difference in the extent to which SACCOS have adopted code of conduct for boards and management between work based and community based SACCOS” was rejected. As regards to members participation, it was found that training to members is done, stakeholders interests are recognized, members contribute in general meetings and members’ rights are observed. In testing the second null hypothesis to compare the levels of adoption of members participation in cooperative affairs the statement “There is no significant difference in the extent to which SACCOS have adopted practices to foster member participation between work based and community based SACCOS” was rejected.

The issues of audit inspection and compliance to various regulations, it was found that the cooperatives present audit report in AGM, they comply with legal framework, the auditors are independent and executive staff compensation is reviewed. However, on testing the third null hypothesis, the statement “There is no significant difference in the extent to which SACCOS have complied with various regulations between work based and community based SACCOS” was accepted.

5.3 Implication of the Results

In the current environment, SACCOS in Tanzania, in particular Dar es Salaam, are affected by many factors that inhibit materialization of the potential of cooperatives on the landscape of the economy. However, the significance of cooperatives such as SACCOS in Tanzania has constantly been high in the economic growth strategies.

Thus, the subject of good governance for the SACCOs becomes very important. The findings of this study supplements significant efforts that have been made to improve governance in cooperatives (CRMP, 2005). It has provided empirical evidence to the extent to which cooperatives have adopted the measures to improve governance practices. This study has significant implication to cooperative policy makers and institutions interested in cooperative movement, corporate governance and associated lobbyists, researchers and academicians also and hence contribute to the body of knowledge in the fields of Corporate Governance and of Cooperatives management which is fundamental for success to the economy of the country.

The value of corporate governance research in Tanzania depends on its ability to contribute to entities performance and promote economic development. Studies indicate that entities operating under a volatile environment such as Tanzania require good corporate governance practices such as separation responsibilities, non-executive director representation on the board and establishment of board monitoring committees that would improve performance. These good corporate governance practices were promoted by the Cadbury code (1992) for accountability, transparency and effective decision making processes of boards. Accordingly, this study was carried out to provide a useful framework for SACCOs in that are attempting to improve or implement corporate governance structures.

Given the challenges facing the cooperative sector in Tanzania and its importance in the national economy agenda on the other hand, it becomes necessary to build evidence that will enhance confidence of the public and stakeholders on the cooperatives. The findings of this study implies that SACCOs efforts to enhance

members participation in cooperative affairs by holding AGMs and provide opportunities for members to contribute in such meetings, observing members rights and enhance transparency implies that SACCOs are working to meet requirements of Cooperative Societies Act, 2003 and CRMP, 2005.

Observing the code of conduct, proper distribution of responsibility and compliance to regulation pertaining to good governance of cooperative forms a base for the role of corporate governance of addressing the agency problem and ensuring maximization of shareholders' value. Findings suggest significant level of adoption of SACCOs of code of conduct and compliance to regulation implying the problem of agency is being addressed by the SACCOs. The results of this study indicate substantial levels of corporate governance measures, implying the SACCOs have adopted good governance practice. The variation of levels of adoption of corporate governance measures between the Work Based SACCOs and Community Based SACCOs implies there is a varying level of implementing initiatives which begs the attention from policy makers and institutions interested in cooperative movement, corporate governance and associated lobbyists, researchers and academicians.

5.4 Conclusion

The cooperatives have adopted measures to adopt measures of corporate governance in Dar es Salaam including measures to improve adherence to code of conduct by board and management, provide opportunities to members to participate in cooperative affairs and comply to regulations. However there are significant differences in the extent of adoption of such practices between work-based and community based SACCOS.

5.5 Recommendation

In light of the findings and conclusion of the study, the study recommends the following:

The study recommends that cooperatives board and management have strategies in place, risk management guidelines, enhance their transparency and ensure that they do not influence the audit report context. Cooperative management should define roles and responsibilities of everyone and provide education and training on corporate governance, to ensure accountability and hence improve performance according to the hierarchy.

Moreover, the study recommends that members of cooperatives takes a greater role in governance of their cooperatives, and avail themselves at least basic knowledge in good corporate governance, ensuring that audit are conducted in time and the ability and reputation of the firm that audits their cooperative which provides fair opinion of the cooperative's situation. Community based SACCOs need to improve in most of things more than their counterpart work based SACCOs.

5.6 Areas of Future Research

In order to allow generalizations and comparisons for the extent of adoption of corporate governance in cooperatives further studies are recommended by this study, especially including a larger number of cooperatives, from different regions of the country so as to have cooperatives that are not only of urban environment, but also to include cooperatives found in rural areas.

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APPENDICES

APPENDIX 1

Corporate Governance in Cooperatives Questionnaire

Introduction

Greetings! I am conducting a study on the extent of corporate governance application in cooperatives as a partial fulfillment for an award of Masters Degree in Business Administration of the Open University of Tanzania. Your cooperative is part of this study, and you have been selected as one of respondents in this study. I request you formally to respond to this questionnaire which aims at assessing the extent of application of corporate governance in general. All the responses will be confidential, known only to the researcher. You are allowed to interfere the responses any time. Please, feel free to respond as your replies will enable the researcher to know the extent of which corporate governance is applied in this cooperative.

RESPONDENT'S DETAILS

1. Location of SACCOs

 Kinondoni Ilala Temeke

2. Type of SACCOs –

 Work based Community based

3. Position in the cooperative:

 employee member accountant Manager

Please rate your acceptance level on corporate governance issues in your cooperative by circling from the 5 point scale below that reflects your acceptance level.

Score	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
Distribution	1	2	3	4	5

II: CODE OF CONDUCT BOARD AND MANAGEMENT

1. Election is conducted as per the code of conduct(ELECT)	1	2	3	4	5
2. Board election is conducted in the presence of election supervisor(BESUP)	1	2	3	4	5
3. The board is transparent in its conducts(BTANS)	1	2	3	4	5
4. Leaders disclose property owned or under their control every year(PROPDISC)	1	2	3	4	5
5. Board members trained before assuming their responsibilities(BTRAIN)	1	2	3	4	5
6. The appointment of executive staffs based on competence and fixed term contract(AECOMP)	1	2	3	4	5
7. Selection of Executive Staff is done by registrar before being employed(SEREG)	1	2	3	4	5
8. Training in good governance to board, management and members conducted(GGTRAIN)	1	2	3	4	5
9. The board conduct staff performance assessment(BSPERF)	1	2	3	4	5
10. There are clear and known process for executive staff(OPROC)	1	2	3	4	5
11. The board has provided clear guidelines for management of risk(CRMGUIDE)	1	2	3	4	5
12. There is clear division and segregation of duties among the board and management(DSDUTIES)	1	2	3	4	5
13. The hierarchy of the society is the AGM, board, supervisory committee and management(HIERARCH)	1	2	3	4	5

III: MEMBERS PARTICIPATION

14	Members provided with induction training(MTIND)	1	2	3	4	5
15	Members are availed opportunities to contribute actively in the general meeting(MOPPORT)	1	2	3	4	5
16	Seminars conducted to sensitize members(MSEMINAR)	1	2	3	4	5
17	Members rights are observed (MRIGHTS)	1	2	3	4	5
18	Members are treated equitably(MEQUITY)					
19	Interests of other stakeholders such as buyers, consumers, community, and government are recognized.(STAKEH)	1	2	3	4	5

IV: COMPLIANCE TO VARIOUS REGULATIONS

20	The society has strategic plan (SPLAN)	1	2	3	4	5
21	Audited accounts presented in the Annual General Meeting (ACAGM)	1	2	3	4	5
22	Board and executive management are trained on corporate governance (BETCGO)	1	2	3	4	5
23	There are records on attendance of meeting for Board of Directors (BATTR)	1	2	3	4	5
24	Review of the compensation arrangements for executive staff (EXCOMPR)	1	2	3	4	5
25	There is proper profit distribution processes and procedures (PROFDIST)	1	2	3	4	5
26	Cooperative comply with legal framework and remain relevant and legitimate in society(LEGALF)	1	2	3	4	5

27	Society's final accounts are prepared by the leaders (SFACCL)	1	2	3	4	5
28	The external auditors for the cooperative are independent (EXTAUD)	1	2	3	4	5
29	Inspection by cooperative official/supervisory committee is done (INSP)	1	2	3	4	5
