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## Integrity and Ethical Values, and Financial Performance of Savings and Credit Cooperatives (SACCOs) in Mid-Western Uganda

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### Abstract

**Purpose:** To establish the relationship between control integrity and ethical values, and financial performance of SACCOs in Mid-Western Uganda.

**Methodology:** To collect data was presented using frequency tables and was analyzed using standard regression analysis. Besides, a cross-sectional research design and positivist paradigm were used. Besides, a closed-ended questionnaire was used to collect data.

**Findings:** The study findings indicate a strong positive significant relationship between integrity and ethical values and financial performance of SACCOs in Mid-Western Uganda.

**Unique Contribution to Practice and Policy:** This study provides a detailed understanding of how integrity and ethical values influence financial performance, thus pointing to the fact that integrity and ethical values are predictors of financial performance.

**Keywords:** *Integrity, Ethical Values, Financial Performance, SACCOs*

## 1.0 INTRODUCTION

Savings and Credit Cooperatives (SACCOs) are considered as key tools for bridging a financing gap resulting from commercial institutions considering economically active poor as being unbankable (Ndiege, Mataba, Msonganzila & Nzilano, 2016). The reasons for this being lack of collateral, high transaction costs, high risk of default, low rate of loan recovery, and information opacity (Marwa & Aziakpono, 2014). Besides, SACCOs promote savings among its members, and intermediate savings into loans to enable the members' access credit at fair and reasonable interest rates (Ndiege, Mataba, Msonganzila & Nzilano, 2016). Through increased access to credit, the economically active poor in developing countries are expected to become entrepreneurs and start small and microenterprises.

Although SACCOs are identified as engines for fostering social-economic welfare of the active poor, they (SACCOs) can only achieve this by having sustainable financial performance. Whereas existing literature indicates that there are several factors that can foster financial performance of SACCOs, integrity and ethical values are considered as major aspects in influencing sustainable financial performance.

Integrity and ethical value set tone in influencing the control consciousness of managers and employees of the firm in as far as their actions, attitudes and awareness are concerned. In addition, compliance to integrity and ethical values keeps all actors within the firm from committing any wrongdoing (Magu and Kibati, 2016).

In spite of the role played by internal controls, microcredit institutions have continued to face challenges relating to liquidity, profitability, efficiency; in terms of cost per borrower, and alleged malpractices (Oyoo, 2014; Sama & Niba, 2016). The above challenges could be attributed to none adherence to integrity and ethical values, as this sets a base for misappropriation of organization's resources (Oyoo, 2014). Therefore, the study was aimed at making a contribution on the ongoing debate on the relationship between integrity and ethical values, and financial performance.

The empirical evidences on financial performance of SACCOs in Uganda is scanty, thus a need for this study that was at establishing the relationship between integrity and ethical values, and financial performance of SACCOs in Mid-Western Uganda. While many empirical studies have approached financial performance in the perspectives of profitability and liquidity, to the researcher's belief, no single study has considered financial performance of SACCOs in the perspectives of liquidity, profitability and portfolio quality. Moreover, the study by Fujo & Ali (2016) provide that no one measure of financial performance should be considered on its own, hence making this study relevant in closing the empirical literature gap. Besides, Kabuye et al. (2019) argue that different countries and sectors are associated with varying business environments, hence their performance affected differently.

## 2.0 LITERATURE REVIEW

Integrity and ethical values are considered key in reducing temptations among employees and managers in an entity to be involved in the dishonest or unethical actions (Mwakimasinde, Odhiambo, and Byarugaba, 2014). Besides, maintenance of high standard of ethical behaviour among employees and managers leads to the firm's improved financial performance (Shokoohibi, Saeidi, and Malekamahmoudi, 2015). Also, top management's support for integrity and ethical values through the establishment of codified standards of conduct, is key in influencing employees' ethical behaviour (Shabri, Saad, and Baker, 2016). Indeed, management's

commitment to the code of conduct promotes employees' compliance to integrity and ethical values (Oyoo, 2014). The debate is expanded by Bett and Memba (2017) who suggest that management is duty bound to act with a great deal of integrity while executing its roles, and should uphold to ethical values in all management decisions in the processing firms.

Communication and enforcement of integrity and ethical values within an entity is vital in improving financial performance ( Magu and Kibati, 2016). This could be achieved through the provision of copies of the firm's code of conduct and policy statements to the employees (Oyoo, 2014; Mwakimasinde, Odhiambo, and Byarugaba ,2014). The above studies are supported by Agwor and Kani (2017) who indicate a strong positive and significant connection between integrity and ethical values, and health care service in local governments in River state, Nigeria. There is thus, need to create wareness among employees about the code of conduct.

Sama and Niba (2016) show a negative but significant correlation between integrity ethical values, and fraud incidence among MFIs in South West Region of Cameroon. Oyoo (2014) indicates that fraud has a negative effect on the financial performance of firms, hence should be controlled. Eniola and Akinselure (2016) agree with the above and maintain that fraud has the potential to generate huge losses and customers' loss of confidence in the firms. If it is not detected and checked, it may lead to the firms' financial distress and failure. For effective adherence to integrity and ethical values, there is need for trainings of staff at the beginning of every year to remind each and every employee in an entity of his or her responsibility in detecting and preventing fraud (Sama and Niba, 2016; Asiligwa (2017; Akinleye and Kolawole, 2020). Effective employees' control consciouness affects financial performance of the firms through efficient and effective utilization of resources (Ayimpoya et al., 2010; Kinyua et al., 2015; Magu and Niba, 2016; Etengu 2016). The Stewardship theory echoes a need for managers to faithfully and trustfully put into better use the organizational resources, hence eliminating opportunistic behaviour that has an effect on financial performance (Lasisi, 2017).

Similarly, Kinyua et al. (2015) reveal that management's commitment to setting up an appropriate "tone at the top" is considered key in influencing financial performance. Management, in this regard, sets a good example by providing moral guidance on what is wrong or right, and also communicating in both words and action for other employees of the firm to emulate ( Magu and Kibati, 2016; Mire and Mukhongo, 2016; Akinleye and Kolawale, (2020). Furthermore, management is obliged to express fairness and honesty in their dealings with the firm's stakeholders (Kinyua et al. ,2015). The study relates to the stewardship theory in which managers are expected to work towards achieving the firm's financial objectives, other than focusing on their selfish interests (Smith, 2011;Lasis, 2017). In the same line of thought, Asiligwa (2017) contends that firms in which managers are committed to detecting and preventing frauds are likely to achieve good financial performance. Ayagre and Buameh (2017) extend the debate by arguing that there is need for management to demonstrate ethical leadership as this is believed to motivate employees to effectively and efficiently utilize organizational assets, as opposed to mere existence of corporate code of existence, rules and procedures.

Based on the above empirical evidences, it is clearly manifested that integrity and ethical values influence financial performance. Nevertheless, in the event that the studies were conducted in different industries and countries, their results cannot be generalized on SACCOs in a Ugandan setting. This is so because the level of Board of directors and management's commitment to integrity and ethical values varies from industry to industry, and from country to country (Clarke,

2020). Consequently, the position of how integrity and ethical values influence financial performance of the SACCO sector in a Ugandan setting is a matter of debate, thus, a need for a scientific investigation to be conducted to establish the association between integrity and ethical values, and financial performance of SACCOs in Mid-Western Uganda.

From the reviewed literature on integrity and ethical values, and financial performance, the following hypothesis was derived:

**H<sub>1</sub>:** *There is a positive relationship between integrity and ethical values, and financial performance of SACCOs in Mid-Western Uganda.*

### 3.0 METHODOLOGY

The study adopted a cross-sectional research design that attempts to explain the relationship between the study variables at a point in time (Blumberg, Cooper, & Schindler, 2008). In addition, a positivist paradigm was used in the study as it promotes developing and testing of hypotheses so as to establish the causal relationship between the study variables (Bashabe, Kalu & Amu, 2017). Based on the study population of 122 SACCOs in Mid-Western Uganda (Microfinance Support Center, 2019), a sample size of 93 SACCOs was obtained using the Yamane's formula of 1973 that directs 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%.

Stratified sampling technique was used to obtain the representative sample from the study population, and the stratifying factor was a district. A multi-stage sampling approach was employed; where population was stratified, and probability used to provide equal chance of selection to all elements in the population, and then simple random sampling was carried out (Kinyua, 2016). Open-ended questionnaires were used to collect data from key SACCO staff.

Similarly, a standard regression analysis was conducted to establish the strength and direction of the relationship between integrity and ethical values, and financial performance. The following is an analytical regression model for testing the relationship between integrity and ethical values, and financial performance of SACCOs in Mid-Western Uganda:

$$FP = b_0 + b_1IEV + e$$

Where; FP = Financial performance; b<sub>0</sub> = Constant; b<sub>1</sub> = Beta coefficient; IEV=Integrity and ethical values; e = Error term.

### 4.0 RESULTS

#### Demographic Characteristics

Frequency distributions were developed to assess the demographic characteristics of SACCOs in Mid-Western Uganda, as indicated in Table 1, 2 and 3.

**Table 1: Years of Operation of SACCOs**

	Frequency	Percent	Cumulative Percent
Below 5 years	18	19	10
5-9 years	32	34	38
9-13 years	32	34	83
above 13 years	11	12	100
<b>Total</b>	<b>93</b>	<b>100</b>	

*Source: Primary Data (2020)*

**Table 2: Location of the SACCOs**

	Frequency	Percent	Cumulative Percent
Kasese	12	13	13
Bunyangabu	19	20	32
Kabarole	20	22	48
Kyegegwa	12	13	66
Kyenjojo	10	11	78
Kamwenge	11	12	90
Kitagwenda	9	10	100
<b>Total</b>	<b>93</b>	<b>100</b>	

*Source: Primary Data (2020)*

**Table 3: Capital Structure for the SACCOs**

	Frequency	Percent	Cumulative Percent
Equity Capital	48	52	35
Equity and Loans	33	36	84
Donations	7	8	91
Loans only	5	5	100
<b>Total</b>	<b>93</b>	<b>100</b>	

*Source: Primary Data (2020)*

Based on the study findings revealed in Table 1, 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% of the SACCOs have been in business for a period of less than 05 years. This implies that the Going concern principle was being implemented in the SACCOs studied. In addition, SACCOs with a substantial period in business are associated with experience in the operations of SACCOs, and also being conversant with the dynamics in the Microfinance institutions' business environment. 22% of the SACCOs studied were located in Kabarole district, while 20% were located in Bunyangabu district (table 2). The least of number of SACCOs studied (10%) were located in Kitagwenda district. Besides, the study findings represented in table 3 indicate that majority of the SACCOs in Mid-Western Uganda (52%) financed their business operations by use of equity capital, while 35% used both equity capital and other peoples' money (loans). The least of the financing streams were from donations (8%) and loans only (5%). This implies that most of the SACCOs had a stable

financing option since they used their own money to run their business operations, and this has an impact on their financial sustainability.

**Table 4: Standard Regression Analysis Results**

<b>Model Summary</b>						
<b>Model</b>	<b>R</b>	<b>R Square</b>	<b>Adjusted R Square</b>		<b>Std. Error of the Estimate</b>	
1	.490 <sup>a</sup>	.241	.232		4.04177	
<b>ANOVA<sup>a</sup></b>						
<b>Model</b>		<b>Sum of Squares</b>	<b>df</b>	<b>Mean Square</b>	<b>F</b>	<b>Sig.</b>
1	Regression	470.750	1	470.750	28.817	.000 <sup>b</sup>
	Residual	1486.567	91	16.336		
	<b>Total</b>	<b>1957.317</b>	<b>92</b>			
<b>Coefficients</b>						
<b>Model</b>		<b>Unstandardized Coefficients</b>		<b>Standardized Coefficients</b>		
		<b>B</b>	<b>Std. Error</b>	<b>Beta</b>	<b>t</b>	<b>Sig.</b>
1	(Constant)	-5.501	4.353		-1.264	.210
	Integrity & Ethical Values	5.588	1.041	.490	5.368	.000

a. Dependent Variable: Financial Performance

The study results indicated in Table 4 reveal a strong positive significant relationship between integrity and ethical values, and financial performance of SACCOs in Mid-Western Uganda ( $R = 0.490$ ,  $P < 0.01$ ). This implies that a significant proportion of integrity and ethical values is related to financial performance. Thus, H1 is hereby accepted. Besides, 24.1% of the variation in financial performance is explained by integrity and ethical values, while 75.9% of variation is explained by other factors outside the model. Besides, a beta coefficient ( $B = -5.501$ ,  $F = 28.817$ ,  $P = 0.000$ ) reveals that for every unit of integrity and ethical values, financial performance of a SACCO increased significantly by 5.588 units. This is based on the belief that effective adherence to integrity and ethical values leads to eradication of frauds and misappropriations in SACCOs, consequently increasing financial performance. The constant ( $-5.501$ ) was statistically insignificant ( $P = 0.210 < 0.05$ ), implying that no more variables could be needed in the model.

## Discussion

The standard regression analysis results depicted in table 4 indicate a strong positive significant relationship between integrity and ethical values and financial performance of SACCOs in Mid-Western Uganda. Thus, the hypothesis, H1, was supported by the study findings. The significant contribution of integrity and ethical values to the variation in the financial performance of SACCOs in Mid-Western Uganda is revealed by the beta value of 0.490, implying that 51.0% of the variation in financial performance of SACCOs in Mid-Western Uganda is influenced by integrity and ethical values. The finding points to the fact that if there is high level of integrity and

ethical values in SACCOS in Mid-Western Uganda, we expect reduced temptations for employees and managers to get involved in unethical actions, thus, reducing the would-be financial losses resulting from such unethical actions. The finding supports hypothesis H1, since P-value is less than 0.01.

It also mirrors into other empirical researches (Oyoo, 2014; Sama and Niba, 2016; Kinyua et al., 2015; Agwor and Kani, 2017) that reflect positive and significant relationships between integrity and ethical values and financial performance. Sama and Niba (2016) argue that an improvement in integrity and ethical values leads to reduced level of fraud, and this has a significant impact on financial performance of firms. In addition, the study by Eniola and Akinselure (2016) posits that the existence of integrity and ethical values within a firm act as a remedy for fraud, which if not detected and checked may result into heavy financial losses. Furthermore, the AMFIU report 2014/2015 emphasizes the need for professional conduct and observance of sound practices within SACCOS if they are to improve their financial performance.

In the same line of thought, Asiligwa (2017) presents a need for availing code of conduct to staff in order to strengthen their moral consciousness as they pursue the firm's operations. The current study finding proposes to SACCOS in Mid-Western Uganda to advocate for integrity and ethical values adherence if financial performance of SACCOS is to be boosted. The study finding supports the Agency and Stewardship theories. Generally, agents are self-interested and will therefore, have conflicts of interest in their endeavours (Arnold and Lange, 2004). In addition, all the parties (owners and agents) can experience losses resulting from conflicts of interest, hence a need to minimize agency costs (Arnold and Lange, 2014). Kinyua (2016) suggests that self-interest leads to misuse of the firm's resources, hence a need to get rid of it among managers and employees of SACCOS (Almadi, 2015). To achieve this, managers and owners of SACCOS should be on the same footing (Lasisi, 2017), thus the relevance of the Stewardship theory. Above all, there is need for promoting integrity and ethical values within firms, as it leads managers and employees to do good and become better stewards of the organizational resources (Donaldson and Davis, 1991). Accordingly, integrity and ethical values is considered a key dimension of control environment in boosting financial performance of SACCOS.

## **Study Implications**

### **Theoretical Implication**

The study confirms empirical literature in terms of positive influence of integrity and ethical values on financial performance. Thus, based on the study findings, financial performance of SACCOS in Mid-Western Uganda is revealed. Attempts have been made to establish the relationship between integrity and ethical values, and financial performance (Kinyua, Gekure, Gekara and Orwa, 2015; Sahabi, Diibuze and Abubakar (2017). However, no empirical evidence has attempted to explain the effect of integrity and ethical values on financial performance of SACCOS in a Ugandan context, and specifically, Mid-Western Uganda. The empirical gap has been addressed by the current study.

The study was underpinned by the agency and resource-based view theories. Though opportunistic behaviour may exist among the managers and employees of the SACCOS, financial rewards can be offered to them in order to align their interests (agents) to those of the owners. Besides, by putting managers and owners of SACCOS at the same footing will be yet another strategy of eradicating opportunistic behaviour among managers, since it will build a sense of belonging



among managers. Above all, the SACCOs' resources are scarce, hence should be effectively and efficiently managed in order to maximize financial returns. Resources that effectively and efficiently utilized lead to improved financial performance. Agents have a role to exercise in safeguarding the firm's resources from fraud and misappropriation. To achieve this, SACCOs should hire competent staff with suitable capabilities to take care of the scarce resources. Furthermore, integrity and ethical behaviour among stakeholders leads to protection of organizational resources from fraud and misappropriation, and this can be translated into good financial performance.

### **Managerial Implication**

Besides, the results of this study suggest a need for management enhance integrity and ethical values if SACCOs are to improve their financial performance. The SACCO managers should focus greatly on ensuring that integrity and ethical values are upheld since they are revealed to have a strong and significant influence on the financial performance of SACCOs. For instance, management, while carrying out recruitment of its staff, should not only consider skills possessed by persons, but also ensure that qualified staff with evidence of commitment to integrity and ethical behaviour are the ones recruited (Mwakimasinde, Odhiambo & Byarugaba ,2014).

## **CONCLUSION AND RECOMMENDATIONS**

### **Conclusion**

This study focused on establishing the relationship between control integrity and ethical values, and financial performance of SACCOs in Mid-Western Uganda. Based on the empirical evidences, integrity and ethical values were taken into account as a regressor variable, and the direction of its influence on financial performance was hypothesized. In lieu of the study hypothesis, the study reveals a strong positive significant relationship between integrity and ethical values and financial performance of SACCOs in Mid-Western Uganda. It can be concluded that financial performance of SACCOs could be strengthened by advocating for compliance to integrity and ethical values.

### **Recommendations**

In order to boost financial performance of SACCOs in Uganda, managers should focus on ensuring compliance to integrity and ethical values, as this has been presented by the study findings as being significant. Consequently. From the indications, SACCOs need to rethink on the most effective methodologies to apply in promoting compliance to integrity and ethical values. For instance, SACCOs' top management should endeavor to organize trainings at the start of every year to raise the level of awareness about integrity and ethical behaviour, as well as acting as a reminder to employees of their expected conduct within the institution (Sama and Niba, 2016). Besides, all employees should be availed a copy of the code of conduct. It is not all about competence of staff, but both competence and morally uprightness of staff. Therefore, there is need for professional conduct and adherence to sound practices by staff, as this leads to portfolio quality and profitability of SACCOs in Uganda (AMFIU 2014/2015).

### **Study Limitations**

This study considered financial performance of SACCOs in Mid-Western Uganda in the perspectives of portfolio quality, profitability and liquidity, and yet there could be non-financial performance indicators that would be relevant in this study.

Similarly, a quantitative research approach was used in this study, thus missing out on the advantages associated with mixed method approach.

Also, the study adopted a cross-sectional research design. However, using the same study hypothesis, a similar study could be carried out using a longitudinal research design.

The study considered 93 SACCOs to constitute the sample. However, a larger sample could be used so as to extrapolate the study findings. By doing so, the generalizability would be added to the current study findings.

### **Areas for Further Research**

The study was conducted in Uganda, and specifically, in Mid-Western Uganda. A comparative analysis of SACCOs in other parts of the region, while considering the same variables (integrity and ethical values and financial performance), could be beneficial.

The study adopted a cross-sectional research design. The declining trends of financial performance of SACCOs in Uganda necessitates a longitudinal study to be carried out, so as to obtain a deeper understanding of the relationship between integrity and ethical values and financial performance of SACCOs, using the same basic study hypothesis could be used.

The study results on integrity and ethical values, and financial performance of SACCOs contradicted the works of Sahabi, Diibuze and Abubakar (2017); that revealed a positive but insignificant relationship. Therefore, there is need for more empirical research to be carried out.

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