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RESEARCH ARTICLE

Assessment of the Relationship between Conduct and Performance of Quoted Saccos in Nigeria

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Abstract

This study assessed the relationship between conduct and performance of quoted SACCOs in Nigeria. The specific objectives of the study are to determine the extent of relationship between loans and performance of quoted SACCOs in Nigeria and secondly to ascertain the extent of relationship between administrative expenses and performance of quoted SACCOs in Nigeria. The study is an ex post facto research. Utilizing pooled correlation analysis and hypothesis testing, the research investigates the impact of these key variables which are loans, and administrative expenses on the performance Proxy as return on assets (ROA) of quoted Savings and Credit Cooperative Societies SACCOs. The findings reveal a significant positive relationship between increased loans and enhanced performance, emphasizing the importance of managing credit risk to minimize net charge-offs. Additionally, a notable positive association is identified between administrative expenses and performance, prompting recommendations for SACCOs to optimize cost-efficiency while facilitating larger loans. The study underscores the critical role of these variables in shaping the financial viability and sustainability of SACCOs, providing valuable insights for cooperative management and policy formulation in the Nigerian financial sector.

Keywords	*Quoted Saccos in Nigeria; Conduct and Performance; Administrative Expenses*
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Introduction

In recent years, Savings and Credit Cooperative Societies (SACCOs) have emerged as vital financial intermediaries, particularly in developing economies like Nigeria. These cooperatives, often driven by the principles of self-help, mutual assistance, and community empowerment, play a significant role in providing financial services to members, fostering savings, and promoting community development (Aduda & Obondy, 2021).

The decision of some SACCOs to go public and be listed on financial markets in Nigeria represents a notable evolution in their operational landscape. This transition opens avenues for increased capitalization, expanded outreach, and heightened scrutiny from regulatory bodies and the investing public. As these SACCOs navigate the complexities of the public domain, questions arise regarding how their conduct, encompassing ethical standards, governance structures, and management practices, influences their overall performance (Agaba & Turyasingura, 2022).

The definition of a cooperative by the International Cooperative Alliance (1995) characterizes it as an autonomous association of individuals who voluntarily unite to address their shared economic, social, and cultural needs and aspirations through jointly-owned and democratically-controlled enterprises. This conceptualization highlights the bonding capital function of cooperative organizations, emphasizing that cooperatives, such as credit unions, exist to provide products and services like financial assistance, product processing, and marketing for the consumption of their members.

A credit union, specifically, can be understood as a non-profit-making money cooperative where members have the ability to borrow from pooled deposits at favorable interest rates. According to Wilcox (2006), it is a member-owned, member-patronized, and member-managed cooperative with non-profit financial motives, serving specified members.

In the context of financial cooperatives, which provide fundamental financial services to individuals, various countries use distinct terms to refer to credit unions. In Nigeria, they are known as savings and credit co-operative societies (SACCOs). Despite their significance, financial cooperatives, especially in Nigeria and other emerging economies, have received relatively limited attention in academic research. Existing literature on financial cooperatives tends to concentrate on their performance and draw comparisons with commercial banks (Gichuhi & Omagwa, 2020). Additionally, savings and credit cooperatives have largely eluded scrutiny from industrial organization (IO) economists (Iannotta, Nocera, and Sironi, 2007). The savings and credit cooperative industry, therefore, provides an intriguing context for applying industrial organization economics to investigate the conduct of credit cooperatives and its impact on their performance. Notwithstanding the recent growth of the savings and credit cooperative industry, studies using structure-performance models for credit unions (savings and credit cooperatives) are notably scarce in the literature. This scarcity could be attributed to the overshadowing size of the banking industry, resulting in less attention being directed toward savings and credit cooperatives.

The savings and credit cooperatives industry has witnessed substantial growth, expanding faster than the banking industry. As highlighted by Tokle and Tokle (2002), this growth can be attributed to the evolving nature of savings and credit cooperatives, resembling banks in terms of assets and liabilities. While early credit unions predominantly offered savings accounts and consumer loans, contemporary credit unions now provide a broader range of financial services such as checking accounts, money market deposits, certificates of deposit, credit cards, and various types of mortgages.

Although existing studies have explored credit unions in the developed world, particularly in the context of competition with banks, research in the Nigerian setting, particularly on the conduct and performance of quoted SACCOs, remains notably scarce. This study aims to empirically examine the relationship between the conduct and performance of quoted SACCOs in Nigeria, addressing this gap in the existing literature.

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Statement of the Problem

In an ideal scenario, the conduct of Savings and Credit Cooperative Societies (SACCOs) in Nigeria should be characterized by ethical practices, effective governance, and efficient financial management. These cooperatives are expected to operate transparently, providing financial services that benefit their members, and contributing positively to economic development.

However, the reality is that there exists a gap in understanding the relationship between the conduct and performance of quoted SACCOs in Nigeria. The practices, decision-making processes, and operational strategies of these cooperatives may not align with the ideal standards. Issues such as lack of transparency, inadequate governance structures, and inefficient financial management might be prevalent, leading to a potential disconnect between conduct and performance.

If the identified problems are not addressed, several consequences may arise. Firstly, members of the SACCOs may face challenges in accessing fair and beneficial financial services, hindering their economic progress. Secondly, the lack of alignment between conduct and performance may erode trust among members and the broader community, jeopardizing the sustainability of these cooperatives. Moreover, the overall economic impact of SACCOs on the communities they serve might be compromised, hindering the achievement of broader developmental goals.

In light of these considerations, a comprehensive assessment of the relationship between conduct and performance is crucial to identify specific issues, propose effective solutions, and contribute to the sustainable growth of quoted SACCOs in Nigeria.

Objective of the Study

The general objective of the study is to explore the relationship between conduct and performance of quoted SACCOS in Nigeria.

The specific objectives are to:

1. To determine the extent of relationship between loans and performance of quoted SACCOs in Nigeria
2. To ascertain the extent of relationship between administrative expenses and performance of quoted SACCOs in Nigeria

Research Questions

The following research questions guided the study:

1. What is the extent of relationship between loans and performance of quoted SACCOs in Nigeria?
2. What is the extent of relationship between administrative expenses and performance of quoted SACCOs in Nigeria?

Research Hypotheses

The following hypotheses were formulated for the study:

1. H_0: There is no significant relationship between loans and performance of quoted SACCOs in Nigeria
2. H_0: There is no significant relationship between administrative expenses and performance of quoted SACCOs in Nigeria

Review of Related Literature

Conceptual Review

Concept of SACCOs

Savings and Credit Cooperatives (SACCOs) emerge as financial institutions established by individuals seeking to collectively address shared challenges. Their primary objectives include raising funds and providing loans to members at reasonable interest rates, ultimately facilitating the improvement of members' economic and social well-being. Globally, SACCOs have become significant players in the financial sector, holding a substantial percentage of savings (Joshua et al., 2021).

According to Joshua (2021), the key benefit for SACCO members is savings, as it serves as a gateway to accessing loans. SACCOs play a crucial role in advancing the economic interests of their members, emphasizing the promotion of thrift by offering opportunities for accumulating savings with reasonable interest rates and minimal risk. Akinwumi (2006) highlights SACCOs' functions, which include creating a source of funds for providing loans to members for productive and provident purposes, educating members on regular savings, encouraging wise use of savings, and offering services like financial counseling.

The overarching goal of SACCOs is poverty alleviation by enhancing the economic and social conditions of their members through access to financial services. They also strive to combat exploitation by pooling resources to meet the needs of powerless individuals. The formation of a SACCO brings various benefits to members. It fosters a savings culture by providing easy accessibility, offers favorable interest rates for savings and loans, and imparts financial responsibility through member education (Karanja & Simiyu, 2022).

Concept of Credit Cooperative Loans

The term "loan size" refers to the amount of money or its equivalent extended to a borrower under specific credit terms, and it can vary, falling into categories of small, medium, or large (Nassuna, 2003). Tokle and Tokle (2002) highlight the proponents of risk-based lending, asserting its benefits for both members and credit unions. For higher-risk members, accessing loans at rates higher than those offered by the credit union at a lower rate becomes feasible. Without this option, these members might resort to higher-rate loans from institutions like finance companies, pawnshops, or payday loan lenders. Conversely, lower-risk members, who actively seek competitive rates, may secure lower rates than what a uniform rate would provide. Additionally, operational efficiency plays a crucial role, with a more efficient operation correlating with improved loan rates. While credit unions collectively remain smaller than banks, they have witnessed significant growth, particularly in the 1990s, emerging as the fastest-growing type of depository institution (Tokle and Tokle, 2002).

Administrative Expenses

According to Orichom and Omeke (2021), administrative expenses should encompass the costs associated with supporting the activities of the cooperative maintenance department, and this includes, but is not restricted to, costs related to the SACCO's Board of Directors. In cases where the Board's costs can be identified as relevant to savings or lending activities, they should be assigned to those specific activities, with allocation based on an agreed-upon basis. A reasonable approach involves allocating these costs among different lending products based on portfolio size, as an example.

In summary, the allocation of expenses involves charging any cost directly related to a revenue-producing activity against the revenue generated by that specific activity. If an expense exclusively pertains to revenue-producing assets but cannot be directly charged to a single product line, it should be placed into a cost center. This cost center can then be allocated to different product lines based on some criteria, such as the number of loans in each line or the portfolio value (Wambua et al., 2021).

Concept of Savings and Credit Cooperative Performance

Measuring performance becomes particularly challenging when dealing with a cooperative financial institution. Odhiambo (2019) conducted an assessment of the performance of credit unions in the United States, focusing on their capacity to offer maximum service within their given resource constraints and operating environment. They devised a model based on a free disposal hull of observed service/resource data, evaluating performance using two criteria: dominance and efficiency. The model incorporated environmental variables to account for variations in measured performance, assuming that credit unions aim to provide maximum benefits to their memberships.

This model conceptualized the benefits provided by credit unions with dimensions including quantity, price, and variety or convenience. Fried, Lovell, and Eeckaut (1993) gauged the performance of credit unions by assessing their ability to deliver maximum service in each dimension, analyzing dominance relationships and productive efficiency. The study revealed a significant presence of dominance, indicating numerous potential role models for inefficient credit unions. On average, there was around 20% productive inefficiency, suggesting considerable room for improvement, particularly in the quality dimension compared to the price and variety dimensions. This suggests that credit unions can enhance their performance by attracting more members from their pool of potential members and increasing the number of accounts per member. Fried, Lovell, and Eeckaut (1993) proposed extending their study by creating a panel of credit unions observed over several years to calculate productivity growth rates, providing an additional criterion for evaluating credit union performance.

Values and Principles of Cooperative Societies

Cooperatives are founded on fundamental values and principles, serving as guiding norms shared by cooperators, cooperative leaders, and staff, shaping their thinking and actions (Hoyt, 1996). Articulated by the ICA in a 1995 statement, these values encompass self-help, self-responsibility, democracy, equality, equity, and solidarity. The values statement further delineates personal and ethical behavior values that cooperators manifest in their enterprises, emphasizing traits such as honesty, openness, social responsibility, and concern for others. Cooperative principles, on the other hand, serve as guidelines for translating these values into practice, grounded in a distinct philosophy and societal perspective aiding members in evaluating their achievements and decision-making (Hoyt, 1996).

Before 1995, the ICA issued two formal statements of cooperative principles, in 1937 and 1966. In 1995, the ICA redefined, restated, and expanded the cooperative principles from six to seven to guide cooperative organizations into the 21st century (Hoyt, 1996). These principles include Voluntary and Open Membership; Democratic Member Control; Member Economic Participation, Autonomy, and Independence; Education, Training, and Information; Cooperation among Cooperatives; and Concern for Community. These principles underscore that cooperatives are voluntary organizations open to all individuals able to utilize their services, willing to embrace membership responsibilities, and devoid of gender, social, racial, political, or religious discrimination.

Furthermore, cooperatives actively contribute to the sustainable development of their communities through policies approved by their members. Irrespective of their type, size, geographical location, or purpose, cooperatives serve as unique tools for achieving various economic goals in an increasingly competitive global economy. These goals encompass achieving economies of scale, enhancing bargaining power in dealings with other businesses, bulk purchasing for cost savings, accessing products or services otherwise unavailable, expanding market opportunities, improving product or service quality, securing credit from financial institutions, and increasing income (Dogarawa, 2005). In essence, cooperatives function much like other businesses.

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Theoretical Review

This work is theoretically underpinned with the theory of financial intermediation developed by Merton and Bodie in 1995. The theory refers to the process where financial institutions act as intermediaries between surplus units (savers) and deficit units (borrowers) in the economy.

Theory of Financial Intermediation

Merton and Bodie (1995) developed a theory called modern theory of financial intermediation which comprises traditional theory and the changes in financial environment. The modern theory of financial intermediation emphasizes six core functions of financial intermediation: provision of means for clearing and settling payments to facilitate exchange of goods and services; provision of mechanism for pooling resources; resources allocation; risk management; provision of means to tackle the problem of moral hazard. Financial intermediation theory is a comprehensive framework that explores the functions, roles, and mechanisms of financial intermediaries within an economy. This theory delves into how these intermediaries facilitate the flow of funds between savers and borrowers, addressing information asymmetry, managing risks, and contributing to the overall efficiency and stability of financial markets. These institutions play a crucial role in channeling funds from those who have excess funds to those in need of funds. For the purpose of this study, the enumerated functions could be expressed as resources accumulation, resource allocation, managing various risks and facilitation of exchange. It is by realizing these functions that the formal and informal institutions sector contributes to the well-being and enhanced standard of living and general economic development.

Empirical Review

Chang et al (2009) examines whether there are differences in the impacts of loans to capital structures for credit cooperatives in northern, central and southern Taiwan. Their result indicates that there exist an asymmetric relationship in the effects of net-worth to loan ratio to loans growth and operating performance of credit cooperatives in Taiwan.

Their finding indicates that both operating performance and loans growth of credit cooperatives in northern and central Taiwan are under the influence of net worth to loan ratio and therefore, thus there is a threshold relationship. However, there is no threshold relationship in southern Taiwan, which means that financial structures do not create significant effects on operating performances. Therefore, their study finds that 1 unit increase in loans creates 2 units of increase in net profit margins. Also, both loan growth rates and operating performances of credit cooperatives in northern and central Taiwan are under the influence of net worth to loan ratio and threshold effects exist; however, there is no significant threshold effect for credit cooperatives in southern Taiwan (Chang et al, 2009).

Alufohai (2006) reviewed the sustainability of farm credit delivery by cooperatives and NGOS in Edo and Delta states, Nigeria. Alufohai (2006) assessed and compared the financial ability of the cooperatives and NGOs to sustain the farm credit delivery function as its main objective with such specific objectives as to identify their sources of loanable funds, examine their volume of loanable funds and their adequacy, examine their degree of subsidy dependence and to estimate their capital formation rates. Though the issue of self-sustainability and how to assess and measure it remains clarified especially with the existence of explicit and implicit subsidies, a development financial institution may be considered sustainable if it is able to maintain its lending operations with a reasonable profitability over time.

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Methodology

Research Design and Sampling

This study made use of *Ex-post facto design.* An *Ex-post facto design* is the type of research involving events that have already taken place (historical). The sample size of the study consisted of ten SACCOs.

Model Specification

Model specification used by Jambowo (2014) was adopted to test the significance of the influences of the independent variables on the dependent variables. This has been statistically stated below:

$$r = \left[\frac{1}{(n-1)}\right] \text{ x } \Sigma[((loans - loans)/S_{loans}) \text{ x } ((Roa - Roa)/S_{roa})] \ldots \ldots (1)$$

$$r = \left[\frac{1}{(n-1)}\right] \text{ x } \Sigma[((AE - AE)/S_{ae}) \text{ x } ((Roa - Roa)/S_{roa})] \ldots \ldots \ldots \ldots \ldots . \ldots (2)$$

Where:

n	=	number of observation in the sample
Σ	=	summation symbol
loans	=	the value of loans
loans	=	the sample mean of loans
S_{loans}	=	the sample standard deviation of loans
SAE	=	the value of Administrative Expenses
SAE	=	the sample mean of Administrative Expenses
S_{AE}	=	the sample standard deviation of Administrative Expenses
SROA	=	the value of return on assets
SROA	=	the sample mean of return on assets
S_{ROA}	=	the sample standard deviation of return on assets

Dependent variable = Return on Assets (ROA)
Independent variable = loans and administrative expenses.

Results and Discussions

Simple Regression

Hypothesis 1
Ho_1: There is no significant relationship between loans and performance of quoted SACCOs in Nigeria

Ha_1: There is significant relationship between loans and performance of quoted SACCOs in Nigeria

Table 1: Result of the Correlation Analysis for Hypothesis 1

Covariance Analysis: Spearman rank-order
Date: 11/15/23 Time: 05:56
Sample: 2013 2022
Included observations: 100

Correlation t-Statistic Probability Observations	ROA	LOANS
ROA	1.000000 ----- ----- 100	
LOANS	0.784632 3.451289 0.02160 100	1.000000 ----- ----- 100

Source: *Author's EView Statistical Software Result, 2023*

Table 1 illustrates the results of the aggregated correlation analysis conducted for the examination of hypothesis one. The positive correlation coefficient of 0.784632 aligns with the anticipated positive relationship, indicating that an escalation in loans is positively associated with the performance (ROA) of credit cooperatives. In light of the positive coefficient, we reject the null hypothesis and affirm the alternative hypothesis, asserting that there is a positive correlation between the augmentation of loans and the performance of savings and credit cooperatives in Nigeria. This positive correlation is consistent with the findings of Tokle and Tokle (2002), who similarly identified a positive relationship between credit union loan rates and performance.

Hypothesis 2

Ho_1: There is no significant relationship between administrative expenses and performance of quoted SACCOs in Nigeria
Ha_1: There is significant relationship between administrative expenses and performance of quoted SACCOs in Nigeria

Table 2: Result of the Correlation for Hypothesis 2
Covariance Analysis: Spearman rank-order
Date: 11/15/23 Time: 05:59
Sample: 2013 2022
Included observations: 100
Balanced sample (listwise missing value deletion)

Correlation t-Statistic Probability Observations	ROA	Admin_Exp
ROA	1.000000 ----- ----- 100	
Admin_Exp	0.790850 11.98354 0.0001 100	1.000000 ----- ----- 100

Source: *Author's EViews Statistical Software Result, 2023.*

Table 2 shows the pooled correlation analysis for the test of hypothesis two. The sign of the correlation coefficient of 0.790850 is positive and corresponds with the apriori expectation of either a positive or a negative relationship thus signifying that the administrative expenses variable has a positive relationship with SACCOs' performance in Nigeria. Therefore, we reject the null hypothesis while accepting the alternate hypothesis that administrative expenses have a significant relationship with the performance of credit cooperatives in Nigeria. The administrative expenses variable is used to capture cost associated with keeping the cooperative functioning and our finding on administrative expenses corresponds with the finding of Tokle and Tokle (2002) who found a positive relationship and significant effect of salaries on credit unions loan rates in the United States.

Summary of Findings

Findings arising from this research were summarized as follows:

i. The results of hypothesis one testing reveal a noteworthy positive correlation between loans and the performance (measured using return on assets) of the quoted savings and credit cooperative societies in Nigeria, as indicated by a significant level of 0.02160.
ii. The findings of hypothesis two testing suggest a significant positive connection between administrative expenses and the performance (measured using return on assets) of the quoted savings and credit cooperative societies in Nigeria, evident at a significant level of 0.0001.

Conclusion

The primary objective of SACCOs is to cater for the needs of their cooperators. Achieving this goal becomes feasible when members engage in savings, primarily through the acquisition of shares in the cooperative, contributing to a pool of funds from which low-cost loans can be extended to them. For savings and credit cooperatives to function efficiently and effectively, they must serve their market adeptly and be well-managed to generate surpluses, ensuring financial sustainability and operational continuity. Similar to other financial intermediaries, surpluses play a crucial role for credit unions, helping build a capital base for future expansion and providing a buffer against adverse shocks to ensure long-term viability. The study's findings indicate a significant positive relationship between loans, administrative expenses, and the performance of credit cooperatives. Consequently, the study concludes that proper management of these two variables is crucial, as they have a significant impact on performance.

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Recommendations

Following the findings arising from this study, the following recommendations become imperative.

i. The findings clearly indicate a positive relationship between an increase in loans and the performance of credit cooperatives. However, it is crucial for credit cooperatives in Nigeria to manage the credit risk associated with lending to minimize the occurrence of increased net charge-offs resulting from a higher risk of default. Efforts should be directed towards maintaining low credit risk to mitigate the impact of elevated default risks on net charge-offs.

ii. Given that higher wages may be indicative of increased costs, this study recommends that credit cooperative societies focus on minimizing administrative expenses while actively pursuing the facilitation of larger loans over smaller ones. This strategy is proposed because the personnel involved in approving larger loans are often the same individuals involved in processing smaller loans. Therefore, making larger loans is deemed more cost-effective compared to handling smaller loans.

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