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The impact of corporate governance on the financial performance of credit unions: The case of CamCCUL network

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Abstract

This paper was aimed at assessing the impact of corporate governance on the performance of credit unions in Cameroon with reference to credit unions under the Cameroon Cooperative Credit Union League (CamCCUL) in the Bamenda Chapter. Through a survey design, the paper used a sample of 350 respondents selected from 35 credit unions under the CamCCUL Network. The indicators of corporate governance considered in the paper Board role and composition, transparency and disclosure, auditing and compliance and risk management while financial performance as the main dependent variable will be denoted by with indicators being profitability, loan portfolio and liquidity. The Principal Component Analysis (PCA) was employed to obtain the composite values for each of these indicators. Through the use of multiple regression analysis, the results showed that board role and composition has positive and significant effect on loan portfolio and profitability of credit unions but effect on the liquidity and overall financial performance was insignificant. Meanwhile, it was found that transparency and disclosure, auditing and compliance as well as risk management had positive and significant effects on all aspects of financial performance (Loan Portfolio, Liquidity and profitability) as well as overall financial performance of credit unions. On the basis of these, the paper recommends amongst others that the microfinance stakeholders in Cameroon especially the Ministry of Finance and COBAC in particular should review the microfinance regulations to ensure that these corporate governance indicators. Also, the board, staff and committee members should take a written engagement at the time their services are employed in the union. Moreover, credit unions should employ the services of risk analysts to evaluate the weaknesses that can either cause or increase risks in the system.

Keywords: corporate governance, financial performance, credit unions

Introduction

There is no institution that seeks to remain stagnant throughout its lifespan. While some may be fighting to grow in terms of financial prowess, others may fight to grow in size or in market sphere and share. However, the ability to achieve whatever growth objective a corporation set depends on how well the institution is governed with respect to building credibility, ensuring transparency and accountability as well maintaining an effective channel of information disclosure that would foster good corporate performance.

Galema *et al*. (2011) [22] are of the argument that the strength of the corporate governance structure practised in each credit union determines the system's vulnerability to uncertainties and eventual risks; the reason why some institutions fail and others succeed. In some credit unions, little attention has been paid to the corporate governance system enforced, thus reducing the possibility of sustainability. The minimal attention to the role of corporate governance on the financial performance of microfinance institutions in general and to the credit unions in particular is unfortunate because they serve millions of poor and vulnerable members of the society especially in the developing countries.

In Africa, this credit union idea is fundamental in alleviating poverty through the enhancement of financial inclusion. Shaw (2006) [53] and Okwee (2011) [45] are of the view that in many developing countries, the system of credit union governance like any other form of corporate governance is "relationship-based rather than "rules-based" and this has led to the promotion of insider trading. This owes to the fact that credit unions are democratically run financial institutions whose governance principles differ with those of conventional for-profit financial institutions. Credit unions have as mission to meet the financial and socio-cultural needs of their members and this poses a challenge in that not so much has been done on the governance principles of these credit unions. Therefore, credit unions are faced with the challenge of developing a rules-based approach of corporate governance to meet the rapid growth and the resulting management challenges.

Mugenyi (2010) [40] contends that despite the rapid growth and the importance attached to these credit unions in the microfinance sector, their biggest challenge remains the corporate governance mechanism. These challenges include; the existence of a volunteer board of directors, limited individual influence despite the "one-man one-vote decision-making system and the absence of a common legal framework. enumerated the roles of the board referring to them as the leaders in the credit union movement but expressed dissatisfaction on the fact that most board members have multiple agendas and this plays a great role on the governance principles adopted by such boards. This will have a trickledown effect on the staff since the board which is the head has failed to reach a consensus on which policies to put in place for the executive director to execute. To him, an effective board must speak in one voice and make realistic targets with a clear vision, strategic plans, policies, procedures and a job description. He further reiterated that the board

members must be masters in policy development through frequent trainings, SACCA (2012) [51].

The Njinikom Credit Union was the first credit union in Cameroon which started with an initial savings of 2100 FCFA, membership of 16 and a loan of 700 FCFA. Ndonmbou (2012) emphasises that the idea of credit unionism started in Cameroon in the early 1960s and in 1968, the quest for the harmonization of the credit union services for the purpose of effective and easy governance led to the creation of the West Cameroon Credit Union League which was later changed to the Cameroon Cooperative Credit Union League (CamCCUL). In 2012, the number of credit unions in Cameroon stood at 218, a total membership of 1,153,588, share/savings of USD214 Million, loan portfolio of USD174 Million, total assets of USD293 Million and a market penetration rate of 4.5%.

As at December 2012, CamCCUL had 218 credit unions and 1,153,588 members under its supervision. Per region, the North West Region has 80 credit unions out of 218 with 701220 members. The Bamenda Chapter of Credit Unions is the largest chapter under the CamCCUL network with 48 credit unions and 506416 members. According to the CamCCUL annual report of 2012, the organizational structure of a credit union in Cameroon is made up of the general assembly, the board of directors, committees and staff.

Nfor (2013) [42] and Okwee (2011) [45] have however warned that despite their recognition, credit unions in Cameroon and Africa in general have suffered from opaque governance and this has resulted to mismanagement of funds. Nfor (2013) [42] holds that the credit unions in Cameroon have grown in numbers and activity and require board commitment, competence, transparency and more harmonized regulations to meet this challenge.

Nfor (2013) [42] and ONOMO (2013) [47] contend that despite all the efforts made since 1968, credit unions under the CamCCUL network in 2011 went into disagreement because of misunderstandings on the application of article 23 of the 1992 law of cooperative societies in Cameroon on elections. This had to do with the change of the mandate of board of directors from a three-year period renewable once to a three-year period renewable twice. This has led to threats of disaffiliation especially with major credit unions in Cameroon especially in the Bamenda chapter thus exposing them to possible fraud and corruption. Despite all these efforts, the credit union movement still sails through poor governance and mismanagement in the form of fraud, non-respect of policies, poor risk assessment and control, insecurity amongst others.

These have raised a lot of doubts as to whether the existing governance mechanisms in the credit union sector in Cameroon can meet the challenges of the present time. The above problems and the incompleteness of the contributions made so far in resolving them have opened fertile grounds for discussions on credit union governance issues the world over and in Cameroon in particular. With this, the paper seeks to assess the effects of board role and composition, transparency and disclosure, auditing and compliance as well as risk management as aspects of corporate governance that have implications on the performance of these credit unions.

Findings that erupt from the study are most likely going to resolve the corporate governance problems plaguing the credit union movements in Cameroon and the world at large and also to fill gaps which still exist especially in the areas of board composition, transparency, compliance and risks which are threatening their sustainability.

The rest of the paper is structured to handle literature review, methodological issues, empirical results and policy recommendations.

2. Literature Review

The theoretically foundations of the study are build on three main theories on which corporate governnace literature often lays emphasis. These are the agency theory (shareholder theory), the stakeholder theory and the stewardship theory which all emphasis on different approaches to governance within the corporate environment. It is based on these theories that several literature and empirical review made in the paper are written.

From an empirical perspecive, a myriad of empirical studies have been carried out in the field of corporate governance and the performance of orgnaisations across the world, with their foundations on any or all of the above theories. Although different methodologies may be adopted, there seems to be a general consensus amongst the studies that good governance is of veritable importance within any organisation. For instance, Davidson and Wei (2004) [15] had as objective to examine the role of board composition as a corpoarte governace indicator on financial performance taking into to consideration the difficulty of measuring board composition. Causality tests were used in panel regression of 130 mutual fund institutions. The results revealed that the evidence of board composition influencing financial performance was not very strong and depended on the definition of financial performance and board composition.

Meanwhile, Sanda *et al* (2005) [52] examined the efficacy of corporate governance mechanisms as a means of increasing financial performance in firms. A sample of 93 firms quoted in the Nigerian Stock exchange for a 4-year period (1996-1999) was selected. The authors applied the ordinary least square technigue to examine the influence of corporate governance on the financial performance of these firms. The results obtained revealed that firms managed by a larger number of outside directors tend to perform well than inside directors. They recommended the separation of the post of the CEO and the Chairman and equally warned against the generalisation of these results because of the limited sample size which was determined largely by information availability.

The preoccupation of Rogers (2008) [50] was to establish the relationship between core corporate governance principles and financial performance in the commercial banks of Uganda. The study was conducted as a cross-sectional and correlational investigation. The target population included Ugandan commercial banks and officials from the Bank of Uganda (BoU) through stratified random sampling. The Pearson's correlation statistical technique was used to test whether any relationship existed between transparency, trust, disclosure and financial performance and multiple regression was used to test the potential predictors of the dependent variable. The findings revealed that corporate governance predicts 34.5% of the variance in the general financial performance of commercial banks in Uganda. The author recommended from the results that local and international banks should enforce full disclosure and transparency practices in order to survive in a competitive financial system. On similar grounds, Chilolo (2009) [10] is also for the argument that a good governance

system must put up an efficient risk management system which identifies, assesses, mitigates and monitors risk in a bid to improve on the financial performance of the institution. This includes methods like risk avoidance, risk reduction, risk transference and risk retention depending on the organisation's capacity to use any of the approaches and the rationale for its use.

On their part, Raymond *et al* (2010) [49] had as objective examining the influence of corporate governance on financial performance. Their main interest was on board composition and the role it has on financial performance. The study population was 500 companies extracted from reports of Standard and Poor's and 200 companies were sampled from this population. The OLS regression analysis and their results indicated that firm financial performance is influenced by board composition and also that so many regulations in the Sarbanes Oxley Act have not been met. Their recommendation was that researchers should do more research on board composition and financial performance by addressing some other board composition issues they could not capture in their research.

Mugenyi (2010) [40] in his work had interest in finding out the corpoarte governace indicators that were weakening the Savings and Credit Coperative Organisations (SACCOS) in Uganda. He analysed the perceptions and experiences of board members in a qualitative approach wherein the researcher collected data from seven focus groups from seven SACCOS with atleast 4 to 8 members interviewed. The results indicatd that the corporate governance mechanism of SACCOS had an effcet on the growth of SACCOS. The study recommended that more research should be done to improve on the governance mechanism of these SACCOS to meet with the expansion of these institutions at a time when the government was making more efforts to improve on its sustainability.

Chen *et al*. (2010) [9] in their research had as main objective to identify whether there existed any relationship between good corporate governance and good corporate performance. They used interviews and indepth survey tools to examine the effcets of governance issues like time allocation, decision making processes, board composition, board peformance measures and credit union performance measures. A total of 433 diectors provided responses both qualitatively and quantitatively on the indicators mentioned above. The data was analysed to identify trends between credit union governance and fianacial performance. A random sample of 150 responses were them selected and used for the study. An online survey questionnaire was used to collect data from the credit unions. The results concluded that there is a significant and complex distance between governance and perforamnce in all organisation, cedit unions inclusive.

Contributing to the issue of governance, Herly & Sisnuhadi (2011) [27] examined the relationship between corporate governance and firm performance in Indonesia. Panel data was collected from annual reports of companies and 219 of them were sampled for the study. The independent variable was corporate governance reporting which was measured using the assessment criteria used in the Annual Report Awards 2007 in which information was searched on four major determinants of governance. Financial performance was measured from two indicators; company's financial returns and its competitive position in the market using ROA and Tobin-Q. ROA is measured by net income on total assets at year end and Tobin-Q is measured by total debts, preferred stock and market value over the book value assets. The findings indicated that there is still lack of disclosure of corporate governance issues in sampled companies. However, the results show a positive relationship between ROA and corporate governance reporting. There was a negative relationship between corporate governance reporting and Tobin-Q. The researchers therefore recommend the need for enhanced disclosure techniques on corporate governance practices.

In a combined effort, Haddad *et al* (2011) [24] had as prime objective to identify corporate governance variables that could be used to resolve the agency problem which existed in the Jordanian firms. The study population consisted of 96 industrial firms listed in the Amman Stock Exchange (ASE). They sampled and used 44 of these firms for the study and employed regression analysis was used to determine the overall efficiency of the results obtained. Their study found out that there exist a direct relationship between corporate governance and performance. They therefore recommended that liquidity; earnings per share and dividend per share are major determinants of corporate governance and corporate performance and also advised that firms should improve on their corporate governance practices and that this could be made possible if firms cooperate to come out with a common financial reporting system amongst themselves in order to ease the job of the external regulators.

Okwee (2011) [45] in his study was interested in finding out the level of compliance to corporate governance guidelines by SACCOS in the Lango Sub Region and how corporate governance affects financial performance of SACCOS. The author study used a sample of 63 drawn using stratified random sampling. A regression analysis was run to find the relationship between corporate governance and financial performance and the results led to the conclusion that good corporate governance practices and reduction in risk lead to better financial performance.

Abdul-Qadir & Mansur (2012) [1] were interested to study the impact of this compliance to the corporate governance code on financial performance. The study used 12 selected banks considered healthy and data collected form them within the period 2006-2010 using their financial statements. Two major techniques were applied to test the hypotheses of the study; t-test and ANOVA. The study revealed that compliance to the corporate governance code will result to good financial and operational performance especially when managerial policies are improved upon. They recommended that banks should target compliance through better management policies.

Amba (2012) [3] investigated the impact of some corporate governance variables on the firm's financial performance. The variables selected by him were; CEO duality, chairman of audit committee, proportion of non-executive directors and concentrated ownership structure and ROA was used to measure financial performance. Through the application of multiple regression, the results showed that corporate governance has a great a statistically significant impact on financial performance. Based on this, the author recommended that the more policy thinkers research in other variables of corporate governance and their relationship with financial performance, the more informed firms will be and the better their output and growth.

With evidence from Poland, Kowalewski (2012) [34] investigated the relationship between corporate governance,

firm performance and dividend pay-out during the financial crisis in Poland. He sampled 298 companies listed in the Warsaw Stock Exchange as his sample. He developed a Corporate Governance Index (CGI) made up of 7 different indicators of corporate governance (management, supervisory board, remunerations, shareholder rights, ownership structure, audit and financial disclosure and corporate behaviour). The study used ROA and Tobin's Q as indicators of performance. ROA asset is an accounting measure and is calculated as earnings before interest and taxes over total assets. Tobin's Q reflects expectations about future earnings and market perceptions of the value of the company. Regression analysis was used to analyse the results and within the period 2006-2010. Descriptive statistics was also used in analysing the results. The pairwise correlation technique was used to determine the relationship between corporate governance and financial performance. It was observed that the CGI was strongly correlated with each of its sub-indices. CGI and most of its sub-indices were also found to have a positively strong relationship with ROA and the CGI was also found to correlate strongly and positively to the Tobin's Q.

Hussain and Mobeen (2013) [30] in their study on the impact of corporate governance on overall firm performance used questionnaires to collect data from white and blue collar workers in the financial sector using the likert scale as well as secondary data was extracted from the annual reports of banks. Standard deviation and variance tests were used to justify factors included in corporate governance. The data from the questionnaire was computed by taking the mean responses of the three independent variables so as to have an average score for each respondent. Multiple regression analysis was used to show the effect of the independent variable on overall firm performance and the results indicated that corporate governance has an impact on overall firm performance.

In a comprehensive study with emphasis on ownership and board size, Oluwafemi *et al* (2013) [46] examined the relationship between corporate governance and financial performance in the Nigerian banking sector. Their study used secondary data from the financial statements of Nigerian banks. The multiple regression analysis was used to establish the impact of corporate governance on bank performance. The independent variables used were board size and board composition while the dependent variable was captured by Return on Asset (ROA). The results indicated that corporate governance affects bank performance. They recommended from their results that performance of banks can however increase only when the board size is increased and the composition of external directors reduced from the board.

From the above empirical literature reviewed, this study is designed to fill the gaps that still exist in the implementation of corporate governance guidelines especially within the context of Cameroon. The major difference this study mades is the use of several indicators of cooperate governnace and the application of the Principal Componenet Analysis, acting as a parsimonious summarisation of the numerous elements that make up the aspect os corporate governance.

3. Methodological Issues

Population and Sample

This study is limited to credit unions which are or have once been under CamCCUL of the Bamenda Chapter. This scope is chosen because the Bamenda Chapter has the highest number of credit unions in the 10 chapters that make up CamCCUL alone (48 out of 218). Moreover, the design adopted is the cross-sectional survey research design which is exploratory on the one hand and causal on the other because it will examine the relationships amongst variables and the effect of the corporate governance indicators on financial performance.

Out of these 48 credit unions, 35 are selected using the simple random sampling technique. A disproportionate sampling was used to select credit unions from each rank because the number of credit unions in some ranks is small. From the credit unions selected, a total of 10 respondents involving management (board and staff) and members are sampled randomly making a total sample size of 350 respondents.

Model Specification

The models to be used for this study are linear functions relating performance to the different indicators of performance under study and the different indicators of corporate governance and the inspirations of these models are drawn from earlier studies such as those of Mohammed (2012) [39] and Whereas the indicators of corporate governance were mainly Board role and composition (BRC), transparency and disclosure (TD), auditing and compliance (AC) and risk (R), those of financial performance as the main dependent variable will be denoted by (FP) with indicators being Profitability (P), Loan Portfolio (LP) and Liquidity (L). The indicators of financial performance are used to develop different functions relating financial performance and corporate governance as shown below:

Profitability and Governance Equation: In this equation, the profitability of the credit union in question was made a function of various aspects or indicators of corporate governance as follows:

$Prof=f(A^{\alpha 0}, BRC^{\alpha 1}, TD^{\alpha 2}, AC^{\alpha 3}, R^{\alpha 4}, e^{\mu})$ given quantitatively as;

$$Prof_i=\alpha_0+\alpha_1 BRC_i+\alpha_2 TD_i+\alpha_3 AC_i+\alpha_4 R_i+\mu \qquad (1)$$

Loan Portfolio and Governance Equation: In this equation, the loan portfolio of the credit union in question was made a function of various aspects or indicators of corporate governance as viz:

$LP_i=f(A^{\alpha 0}, BRC^{\alpha 1}, TD^{\alpha 2}, AC^{\alpha 3}, R^{\alpha 4}, e^{\mu})$. This function is also Taylor Linearised as follows

$$LP_i=\beta_0+\beta_1 BRC_i+\beta_2 TD_i+\beta_3 AC_i+\beta_4 R_i+e \qquad (2)$$

Liquidity and Governance Equation: Here, the liquidity indicator of performance in credit union in question was made a function of various aspects or indicators of corporate governance as follows:

$L_i=f(A^{\alpha 0}, BRC^{\alpha 1}, TD^{\alpha 2}, AC^{\alpha 3}, R^{\alpha 4}, e^{\mu})$

The linear structure of this function is thus given as

$$L_i=\lambda_0+\lambda_1 BRC_i+\lambda_2 TD_i+\lambda_3 AC_i+\lambda_4 R_i+\psi \qquad (3)$$

These three functions have been summarized in one function showing the relationship between Corporate Governance and Financial Performance in the following Governance-Financial Performance function and model adopted after Mohammed (2012) [39] and econometrically presented as;

$$FP_i=\pi_0+\pi_1 BRC_i+\pi_2 TD_i+\pi_3 AC_i+\pi_4 R_i+\varepsilon \qquad (4)$$

Note that α_{0-4}, β_{0-4}, λ_{0-4} and π_{0-4} stand for the coefficients of the parameters under estimation; that is, Board role and

composition, transparency and disclosure, auditing and compliance and risk management in equations [1] to [4]. A priori, it is expected that all the parameter estimates should be positive as justified by earlier findings by Eisenhardt (2006), Okwee (2011) [45], Herly & Sisnuhadi (2011) [27], Chilolo (2009) [10], Duhnfort *et al* (2008) [17], Hill & Thomas (2001) [29] and Joel (2012) [32], Kaupelyte and Olive (2006) [33], Smith (2011) [54] amongst others.

Techniques of Estimation

Both the dependent and independent variables were all captured using a series of questions. The Principal Component Analysis (PCA) is then conducted on these questions to examine which questions better capture the various indicators. PCA is a variable reduction procedure. It is used when we obtain data from a large number of variables (questions) and believe that there is redundancy in the variables (questions). Redundancy means that some of the variables are correlated with one another possibly because they are measuring the same construct. In performing a PCA, scores can be calculated for each subject or indicator. The scores gotten from the questions will then be weighted optimally and summed to compute the scores on a given component or variable.

The PCA was done following four steps: The first step was concerned with the extraction of the components to be used for interpretation; the second determines the number of meaningful components (questions) to retain for interpretation using four criteria are used to arrive at that decision namely the engine value-one criterion, the scree test, the proportion of variance accounted for and the interpretability criterion. The third step was concerned with rotation to a final solution while step four had to do with interpreting the rotated solution. In step five factor score or factor-based scores were created and finally in step six, the PCA results were summarized in table form to have the composite values for each indicator of corporate governance and financial performance.

Having obtained composite values for each indicator of corporate governance and financial performance, multiple regression was then run on the different indicators of corporate governance and financial performance stated above, in line with the approach adopted by Rogers (2008) [50]. The Taylor's Linearised Estimation technique which is an advanced technique of the OLS was adopted to take care of the survey characteristics which are neglected by the common OLS and makes a linear transformation of the standard errors of each estimate as it imposes a linear structure on specified models.

4. Presentation of Findings

PCA Results: The principal component analyses have been done in two sets; on variables that relate to governance and on variables that measure performance.

PCA of Governance Indicators

The PCA results indicated that seven (7) components were worth retaining for analysis in this study because they all have eigenvalues greater than one and also account for more than 70% of the total variance. However, the first four components meet the desire of this study as they capture most of the total variance and include the fundamental measures under consideration. The four components and their respective eigenvalues and proportion of the total variance they account for are summarized on the table below

Table 1: Retained Components for Governance Indicators and their Eigenvalues

Component	Eigenvalue	Proportion (%)	Cumulative Proportion (%)
Component 1	11.866	44.66	44.66
Component 2	3.64383	19.11	63.77
Component 3	2.07533	8.69	72.46
Component 4	2.30297	3.26	75.72

***Source*:** Author's computations using Stata12, 2014.

Results on table 1 showed that the four retained components jointly account for 75.72% showing that more than three-quarters of the variation in governance indicators in credit unions in the Bamennda Chapter is captured by these four components.

At the same time, the variables (elements) that load more on each of these components as shown by their eigenvectors are hierarchically arranged on table 2. On the table, RSPE, RLPB, RDCC, RLRF and RBI are the elements of component 1 that cause its high variance accounted for by the component and these variables are similar in that they all measure risk management in credit unions.

Table 2: Loadings (Eigenvectors) of Retained Components of Governance Measures

Component 1		Component 2		Component 3		Component 4	
Risk Management		Transparency and Disclosure		Auditing and Compliance		Board Role and Composition	
Variable	Eigenvector	Variable	Eigen-vector	Variable	Eigen-vector	Variable	Eigen-vector
RSPE	0.5908	TDPI	-0.5220	AABC	0.4876	BIR	0.5125
RLPB	0.5828	TIDP	-0.4209	AMR	-0.4135	BMG	0.4944
RDCC	0.5822	TMUR	-0.4331	AIEB	-0.3667	BCSF	0.4821
RLRF	0.5821	TAAP	-0.4946	-	-	BMR	0.4179
RBI	0.4709	-	-	-	-	BEMS	0.3959

***Source*:** Author's Computations, 2016.

The factor loadings on table 2 implied that the composite index for risk management in this study will be denoted by component 1. Meanwhile, the tendency for board members, staff and committees to declare their interests (TDPI), information disclosure (TIDP), availability of monthly reports (TMUR) and procedures that evaluate the quality and value of assets (TAAP) load more on component 2 and they are all measures of transparency and disclosure of information in credit unions. On their part, the non-interference of the board in the presentation of audit reports (AABC), the actual monthly presentation of audit accounts (AMR) and the plan of auditing (AIEB) are on their part elements of auditing and

compliance that load heavily in component 3 while the ability of board and committee members to interpret reports (BIR), mastery of guidelines of supervising management activities (BMG), functions clarity and non-interference of board (BCSF), the availability of reports priori to board meetings (BMR) and the existence of performance evaluation for staff and management succession (BEMS) identify themselves as elements of board role and composition exerting a heavy load in component 4. Thus, whereas component 1 denotes risk management, components 2, 3 and 4 measure transparency and disclosure, auditing and compliance and board role and composition respectively.

PCA of Performance Indicators

The PCA results show that up to five components are capable of being retained. However, the first three components have high eigenvalues and capture more variables of interest than the last two. As such, only the first three components are extracted with the relative proportion of variance accounted for displayed on table 3 that follows.

Table 3: Retained Components for Performance measures and their Eigenvalues

Component	Eigenvalue	Proportion (%)	Cumulative Proportion (%)
Component 1	10.1835	43.95	43.95
Component 2	3.31141	19.93	63.88
Component 3	2.07879	9.370	73.25

Source: Author's computations using Stata12, 2014.

Cumulatively, table 3 showed that these three components jointly account for 73.25% of the variation in the performance of credit unions.

Table 4: Loadings (Eigenvectors) of Retained Components of Performance Measures

Component 1		Component 2		Component 3	
Loan Portfolio		**Liquidity**		**Profitability**	
Variable	Eigenvector	Variable	Eigenvector	Variable	Eigenvector
LPCR	0.4688	LDAD	0.4564	PICR	0.4433
LPFC	0.4187	LRAD	0.3929	PMSO	-0.4386
LPLP	0.4138	LMDP	0.3918	PRSM	-0.4331
LPLR	0.4022	LUIA	-0.3007	PCSF	0.3803
LPDL	0.3978	-	-	PDOI	-0.3287
LPLD	0.3945	-	-	-	-
LPWO	0.3268	-	-	-	-

Source: Author's Computations

As observed from table 4, all the measures or elements retained in component 1 all measure loan portfolio within credit unions in the region, all elements of component 2 are measures of liquidity while measures of component 3 are measures of profitability. Interestingly therefore, the eigenvalues for each of the components reveal that the variability in the performance of credit unions is determined in order of merit (as indicated by eigenvalues) by the loan portfolio policy, liquidity policy and the profitability aims of the unions.

Going by their eigenvectors, it can be observed that the interest collection rates (LPCR), non-existence of fake collateral documents in union loan files (LPFC), an up-to-date loan policy for recovery of bad debts (LPLP), the low cost of loan recovery for credit unions (LPLR), low rate of loan delinquency (LPDL), decreasing rate of loan delinquency (LPLD) and the writing off of loans above a year old (LPWO) exert much influence in loan portfolio management index; the availability of deposits on demand (LDAD), bank reserve availability (LRAD), ease of meeting cash demands (LMDP) and the existence of an investment account for saving excess liquidity (LUIA) are the major determinants of liquidity preferences in credit unions while prompt payment of interest (PICR), meeting social obligations (PMSO), meeting reserve requirement of as a result of profitability (PRSM), cheap sources of funding relative to interest generated (PCSF) and the increasing rate of dividends paid (PDOI) are the major factors accounting for the variability in the profitability of credit unions.

Linear Regression Results

The Taylor Linearised results on the effect of each governance indicator on the respective financial performance measures and their overall effect on the financial performance of credit unions are presented on table 5 below with values in parentheses being Linearised standard errors (LSEs). Columns two, three, four and five on the table show the coefficients and standard errors of the governance measures in the loan portfolio model, liquidity model, profitability model and financial performance model respectively.

Table 5: Linear Estimates of Governance Indicators

	Loan Portfolio	Liquidity	Profitability	Overall Financial Performance
	Coefficient (LSE)	Coefficient (LSE)	Coefficient (LSE)	Coefficient (LSE)
BRC	0.4592549 ***	0.0799302	0.4112378***	0.0426491
	(0.1731092)	(0.1351124)	(0.1272785)	(0.0826732)
TD	0.1916813 ***	1.254126***	0.1410135	0.4011528***
	(0.0742617)	(0.1265916)	(0.1010107)	(0.0836129)
AC	0.2077687 *	0.5841879***	0.0852712	0.2355619***
	(0.1083158)	(0.1113813)	(0.1046868)	(0.0733349)
RM	1.73877***	0.0347036	0.0439119*	0.5826594 ***

	(0.04978)	(0.0331904)	(0.0223502)	(0.0216592)
_CONS	-0.1574814	-0.0452987	0.060224	-0.0475187
	(0.2097328)	(.1484018)	(0.1301843)	(0.0976806)
R-squared	0.7894	0.3003	0.5506	0.6707
Adjusted R-squared	0.7868	0.2917	0.5451	0.6666
F (4,326)	316.40	29.32	14.11	187.70
Prob > F	0.0000	0.0000	0.0009	0.0000

***Source*:** Author's computations

From the table 5 below, the coefficients of all the governance indicators are positive in all the four models. As per the loan portfolio equation, the empirical results reveal that as the level of board role and composition increases amongst credit unions, loan portfolio increases by 0.46 with this effect being statistically significant at 1%. The results concur with the empirical findings of Okwee (2011) [45] and are also in strong agreement with our a priori expectations. Similarly, field perceptions as well as the linear estimates indicate that as the level of transparency and disclosure in the management of the affairs of credit unions increases, the loan portfolio increases by 0.19 with the increase being statistically significant in agreement with our a priori expectations.

Meanwhile, auditing and compliance with banking/corporate regulations has a positive and significant effect on the loan portfolio arrangement within credit unions. The result reveals that an increase in the level of auditing and compliance with corporate norms has the ability of increasing loan portfolio by 0.21, in line with the a priori expectations and in consonance with the studies of Davidson and Wei (2004) [15]. The empirical results further show that the ability of credit unions to manage risks is a positive and significant determinant of their loan portfolio. Based on the results, an increase in the level of risk management leads to an increase in loan portfolio worth 1.74. These results are in line with backing a priori expectations and are also statistically significant as confirmed by the significant probability value.

On the portfolio model also, our empirical findings reveal that, board role and composition, transparency and disclosure, auditing and compliance as well as risk management jointly account for approximately 79% of the total variation in the composition of loan portfolio in credit unions, with other factors not considered accounting for about 21% of this variation. The forecasting ability of this variation determined by the value of the adjusted R-squared is justified by the value and significance of the F-ratio, which attest the predictive power of loan portfolio model to be valid at 99%.

In a similar fashion, all measures of governance shortlisted for this study have positive influence on the liquidity issues amongst credit unions in Cameroon but with varying levels of significance and magnitude of effects as shown on column three on table 4.17 above. The coefficient of board role and composition (BRC) is positive but insignificant indicating that though increasing the level of board involvement would increase liquidity ratios by approximately 0.08, the alleged influence is quite insignificant as far as liquidity decisions are concern. Meanwhile, the sign and magnitude of transparency and disclosure (TD) show that it is a significant determinant of the liquidity decisions amongst credit unions in the North West Region. Going by the magnitude of its coefficient in the liquidity model, increase the level of transparency and disclosure has the potential of significantly increasing liquidity by 1.25 in accordance with the expectations.

Similarly, auditing and compliance is a significant and positive determinant of the liquidity decisions amongst credit unions. Empirically, increasing levels of auditing and compliance in credit unions in the network has the potential of raising liquidity by 0.58 with the increase being significant in line with set a priori. At the same time, the empirical Taylor linear results indicate that risk management positively influences the liquidity analysis amongst credit unions for by raising the level of risk management in credit unions has the potential of increasing efficiency in liquidity decisions by 0.03 though the influence is insignificant. Nevertheless, the coefficient of multiple determination (adjusted R-squared) computed for the liquidity model indicates that by jointly varying board role and composition, transparency and disclosure, auditing and compliance, and risk management in credit unions would be responsible for just 29.2% variation in liquidity decisions in credit unions within the network. This show the selected governance measures are less influential as far as liquidity decisions in credit unions are concerned because other factors not included in the liquidity model account for more of (70.8%) the variation in liquidity decisions amongst credit unions with this assertion acclaimed statistically justified at 99% level of significance.

Just as is the case of other indicators of financial performance in credit (loan portfolio and liquidity), the profitability indicator is also influenced positively by enhancement in board role and composition, transparency and disclosure in managing the union affairs, auditing and compliance with banking regulations and risk management. Specifically, increasing the role and composition of board members in credit unions increases profitability by approximately 0.41 in line with a priori expectations and with this effect being significant at 10%. Meanwhile, transparency and disclosure within credit unions has a positive effect on the profitability of credit unions with an insignificant propensity of roughly 0.14. At the same time, the effect of auditing and compliance is positive but insignificant as far as the profitability of credit unions is concerned while risk management has a positive and significant effect on profitability given that increasing the level or efficiency of risk management has a tendency of increasing profitability by 0.04. However, the empirical linear results show that a joint variation in the selected governance measures (BRC, TD, AC and RM) will account for up to 54.51% of the variation in the profitability of the credit unions and the predictive power proven by the value of the Fisher F-ratio of this variation which is quite tenable at 99% level.

Overall, board role and composition, transparency and disclosure, auditing and compliance as well as risk management within credit unions in the CamCCUL network are governance indicators that positively influence the financial performance of the credit as indicated by their magnitude and signs but with the role and composition of board members being insignificant. The linear regression

results on column five of table 4.17 above show that transparency and disclosure has a positive and significant effect on the financial performance of credit unions in Cam CCUL. In fact, as the level of transparency and disclosure in the managerial affairs of credit unions increases, the financial performance of credit unions through loan portfolio, liquidity and profitability increases by 0.4 with such effect being statistically relevant at 1%. Such results are in accordance with the a priori expectations and in vivid consonance with the empirical findings of Mehran and Lindsay (2012) [37] and Mohammed (2012) [39].

Similar implications can be drawn from the sign and magnitude of the coefficient of auditing and compliance. Its magnitude and sign show that as the level of auditing of accounts in credit unions and compliance with banking regulations increases, the financial performance of these institutions has the propensity of increasing by 0.085. This effect is found to be statistically significant at 1% level of significance, is in line with backing a priori and conforms with the empirical results of Chilolo (2009) [10] who also found similar results. On its part, the coefficient of risk management is positive and significant at 1%. Precisely, as the level of risk mitigation and management increases amongst credit unions, there is a tendency for financial performance to significantly increase by 0.58 the effect of which is significant at 1% level of significance, through the effect on loan portfolio, liquidity decisions and profitability. This also meets the findings of Chilolo (2009) [10]

The results on column five of table 5 further indicate that the joint variation in board role and composition, transparency and disclosure of accounts, auditing and compliance with banking regulations and risk management account for approximately 67% of the total variation in the performance of credit unions under CamCCUL with approximately 33% of the overall performance of these credit unions being accounted for by other factors not modeled in the financial performance model such as membership and other specific characteristics of the union. This assertion and the prescriptive power of the effect of this joint is ascertained plausible by the significance level of the Fisher F-ratio whose probability shows a 99% confidence in predictions made based on such results.

5. Discussions and Recommendations

Board Role and Composition and Financial Performance

The findings revealed that board members master management supervision techniques and all reports presented during board meetings. This represents compliance to corporate governance guidelines as stipulated by. The board however mingles in the affairs of the committees and staff and this is a clear prove that there is an element of self-interest given that the supervisory committee whose reports are destined to the General Assembly can't perform their duties diligently since the board members feel threatened that these reports may expose their selfish intentions. The findings have also pointed out a weakness on the part of the board as far as staff evaluation and management succession is concerned which exposes the unions to the risk of inefficient staff, thus exposing the union to poor management characterized by avoidable errors. Therefore, the positive and significant results between board role and composition and loan portfolio is explained by the fact that any little effort made by the board in improving staff evaluation, non-interference in functions and interpretability of reports will lead to better management of the loan portfolio of the union. This is because if these elements are met, loan delinquency will reduce, interest collection rate will increase, an updated loan policy will be put in place and this will drop extra recovery costs.

This is reflected in profitability since a better managed portfolio will lead to better profits reflected by the positive and significant results. Board role and composition has positive but insignificant results with liquidity because the staff master cash management techniques which ensure those members' deposits are always available on demand and timely. This implies that any extra effort by the board in managing liquidity will be of little impact given that this aspect is taken care of.

Generally, the positive and insignificant results between board role and composition and financial performance as a whole does not really imply that improvement on board role is not fundamental in improving financial performance. We rather consider the fact that this role is fundamental but that some vital determinants of board role and composition might not have been included in this study. In Bamenda Chapter and elsewhere for example, wrong investment decisions, lack of technical skills and egoistic attitudes have rendered credit unions bankrupt; for instance, the Njinikom credit union in Boyo Division which was put under CamCCUL administration because of poor monitoring by the board of directors.

Transparency and Disclosure and Financial Performance

The positive and significant influence that transparency and disclosure have on loan portfolio management is explained by the fact that that there exist a strong positive relationship between some aspects of transparency and disclosure and loan delinquency management. This implies that if little effort is applied on mandating the stakeholders to declare their personal intentions in the credit union business, there will be a more than proportionate influence on bad debt reduction, reduction in loan delinquency and an eventual reduction on the loan recovery cost. Moreover, any little effort to put in place and or improve on the information disclosure policy will have a significant impact on reducing the number of delinquent loans, improve on the quality of the loan policy, reduce the cost of loan recovery and reduce the number of fake collaterals in loan files. Moreover, efforts to make reporting regular and timely and the improvement on asset acquisition procedures will have a more than proportionate impact on improving on the loan policy and reducing fake collaterals in the loan files.

Moreover, the strong positive and significant influence of transparency and disclosure on liquidity management is explained by the fact that if little effort is applied on improving on disclosure of personal interests, improving on information disclosure policies, presentation of regular monthly reports and improved asset acquisition procedures will lead to a remarkable improvement on investment decisions such that loan granting remains within the 70% savings rate. Above all, the positive and significant influence of transparency and disclosure on profitability (.14) is justified by the fact that any little force applied on the four transparency and disclosure indicators will lead to a significant improvement on the union's ability to meet its

social obligations and to reduce transaction costs to the members.
Generally, transparency and disclosure significantly and positively influences financial performance because when there is transparent management and full disclosure, there are limited monitoring costs, better quality services, less risky loan portfolio amongst others and this improves the profit margin significantly, thus enhancing the general performance of the union.

Auditing and Compliance and Financial Performance

The positive and significant level of influence that auditing and compliance has on loan portfolio is justified by the fact that any little improvement on internal and external reporting standards and the putting in place of a plan of action for these auditors will significantly improve on bad debt reduction, reduce loan recovery costs and reduce fake collaterals in loan files thereby improving loan portfolio management which improves on the level of the union's financial performance. Auditing and compliance positively and significantly influences liquidity by .58 implying that if reporting and timely intervention by the auditors is improved upon, there will be a more than proportionate impact on maintaining cash ceilings and ensuring that staff and other stakeholders do not fraudulently and or ignorantly misuse the excess liquidity that may be kept in the tills for such selfish intentions. More still, profitability is also positively but less significantly affected by auditing and compliance because any effort to improve on effective and regular auditing curbs some unnecessary expenses and this increases the profit margin. For instance, if audit reports are presented monthly, the cash ceiling and the signing of a single cheque leaf will be maintained, loan recovery will be enforced since these recovery reports are required by the auditors. These will then culminate to improving on the profit level which is then used to build required reserves for the union after dividends are paid. These explain the positive and significant influence of auditing and compliance on financial performance in general.

Risk Management and Financial Performance

This is the most influential indicator of corporate governance as revealed by both the PCA and regression results. From the regression table above, risk management is the highest corporate governance indicator which influences loan portfolio management in particular and financial performance in general. Risk management has a very strong positive and significant influence on loan portfolio management. This implies for instance that if the credit union interconnects all its branches using a central server at the head office bad debts will be reduced considerably given that the cost of moving from one branch to another to monitor delinquency is reduced.
With the use of this interconnectivity, all loan files can therefore be scanned and forwarded to the main server at the head office and this alone ensures the authenticity of these documents since more than one branch has access to verify these documents. Moreover, if effort is made on improving on staff evaluation and the reinforcement of the inclusion of guarantor forms in the staff files, this will lead to a great improvement on the quality of loan policy, increase in profit margin due to reduction in recovery cost and a reduction in the number of fake collaterals in the loan files.
With a defined cash ceiling and close monitoring of the management of the cheque booklet, the amount of delinquent loans will reduce since excess liquidity that could result to excess and poorly assessed lending will be taken care of by the respect of the cash ceiling. This reduction in excessive lending will lead to a drop in nonperforming loans thus reducing loan recovery cost. When cash ceiling is respected, the number of loans granted is minimized and this gives room for proper assessment of loan files and as such reducing the number of fake collaterals. If the loan recovery task force is reinforced loan delinquency will significantly drop, nonperforming loans will reduce and the number of fake collaterals will be reduced considerably. If a risk management scheme is put in place to manage the loans and savings of deceased members, nonperforming loans will also be reduced given that the loans of such members will be repaid from those reserves, loan recovery cost reduces and fake collaterals are checked seriously.
Risk management also affects liquidity management positively and significantly. If the risk management scheme is put in place with sufficient reserves (RLPB), this will create cash reserves which are either paid as insurance premiums in insurance companies or kept in a reserve account in the bank to take care of deceased members' savings and loans thus reducing credit risk (LRAD). When risk is properly managed, theft, fraud and poor investments will be limited thus limiting liquidity crisis.
Above all, risk management also has a positive and significant influence on profitability. This supports the view that the higher the risk, the higher the returns and vice versa. It holds therefore that any effort made on improving staff evaluation and reinforcing the enclosure of guarantor forms in staff files will limit fraud, improve staff involvement in management, reduce unwarranted expenditures and as such, improve on the dividend payout through the increase in the profit margin. If all the branches of each credit union are interconnected, the risk of theft will reduce, fraud and errors will be minimized and the cost of supervision reduced thus leading to an increase in profit which is then used to meet some social obligations by the union. Moreover, if a cash ceiling is maintained, cash will be properly managed since loans will be properly assessed, fraud and theft will be reduced thus increasing profit which comes in to boost the reserves required to reduce risk and maintain sustainability in the union.

6. Conclusions and Recommendations

The findings have shown that corporate governance remains a veritable tool that if adequately respected will enhance the financial performance of microfinance institutes as a whole and credit unions in particular. Such governance issues will help the credit unions regularly attain their profitability, liquidity ad loan portfolio objectives.
On the basis of the above findings, it is highly recommended amongst others that credit unions should employ the services of risk analysts to evaluate the weaknesses that can either cause or increase risks in the system. Equally, the supervisory authorities such as CamCCUL and others should review their recruitment strategies by ensuring that those working under them are knowledgeable enough to uncover the fraud and errors that are rampant in these credit unions. CamCCUL and other credit union supervisory authorities should take this

aspect serious and ensure that they employ their staff strictly from the credit unions.

Moreover, the board, staff and committee members should take a written engagement at the time their services are employed in the union in which case they are expected to take undertakings based on the disclosure of their personal interests for the union. The non-respect of these engagements should be sanctioned seriously so as to limit the excessive powers that may be in the hands of some stakeholders.

Also, the organigramme of the credit unions should be reviewed because the CamCCUL organizational chart shows that the supervisory committee of CamCCUL reports their activities to the CamCCUL Board of Directors and not to the General Assembly as the case should be. This is because this committee supervises everybody with these board members inclusive.

Furthermore, the microfinance stakeholders in Cameroon especially the Ministry of Finance and COBAC in particular should review the microfinance regulations to ensure that these corporate governance indicators with very poor application rates in the credit unions should be revised.

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