

Influence of Control Environment Strategy on Financial Performance of Rushere Savings and Credit Cooperative Organization in Kiruhura District, Western Uganda

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ABSTRACT

Savings and Credit Cooperative Societies (SACCOs) play a crucial role in improving the standards of living of people globally, particularly in communities and regions where they are established. By offering savings and credit facilities, SACCOs empower people to manage their finances effectively and access capital for income-generating activities. They provide loans for housing and asset acquisition. This helps individuals and families improve their living conditions and build assets, contributing to long-term wealth creation. Despite the significant role they play, SACCOs face various challenges, which impact the effectiveness of their operations. In Uganda, as in other countries, some common challenges faced by SACCOs are in terms of internal audit. The purpose of this study was to establish the influence of the control environment strategy on the financial performance of Rushere SACCO in Kiruhura District in Uganda. This research was carried out solely to determine the extent to which control environment strategy influences the financial performance of Rushere SACCO. The research questions were based on risk assessment, communication and information sharing, organizational policies and practices, organization structure, workers' competence as well as ethics and integrity. The study was underpinned by the Stewardship Theory. This study was based on a quantitative research approach. The study used a descriptive research design whereby the attitudes, perceptions, and opinions of the respondents were statistically described in figurative terms. The target population of the study was 160 from which a sample size of 127 respondents was selected using the Yamane formula. Thereafter, respondents were selected by using both stratified and simple random sampling techniques. Self-administered questionnaires were used to collect primary data from the research sites. They contained closed-ended questions framed on a Likert scale of 5. Collected data was analyzed by the use of inferential statistics with the aid of Statistical Package for Social Scientists (SPSS) version 24.0. The study established a significant positive relationship between internal control strategy and financial performance ($p=0.000<0.05$). This study concluded that there is a strong positive relationship between the control environment strategy and the financial performance of Rushere SACCO.

Keywords: Control Environment, Strategy, Microfinance, Financial Performance

INTRODUCTION

The control environment in SACCOs is foundational to their overall financial performance. It establishes the tone for ethical behavior, governance, risk management, and compliance, creating a framework that supports the SACCO's stability, growth, and success. A strong control environment is crucial for building trust among members, attracting investors, and ensuring the long-term financial sustainability of the SACCO. The control environment is, therefore, a critical component of internal control systems in SACCOs as it plays a significant role in shaping the overall financial performance of SACCOs [1]. Globally, a report by the World Council of Credit Unions (WOCCU) shows that the credit union movement provides financial support services to around 260 million people. The total savings and shares held are estimated to be 1.7 trillion USD while the total loan portfolio issued to members globally is around 1.5 trillion USD. On the other hand, the total reserves held amounted to 195 billion USD. The sum of the asset base aggregated to USD 2.1 trillion. The global penetration rate stood at 9.09 percent [2]. Consequently, worldwide SACCOs play fundamental roles in providing financial resources to many people [3]. The WOCCU

reports show that by 2014, there were more than 57,000 Credit Unions in 105 countries in 6 continents. The first savings and credit co-operative society was started in Germany. They were established to enable people to overcome economic challenges in difficult times of life, especially during droughts [4]. Later on, there was a vast establishment of SACCOs in Europe, Canada, the United States, Australia, and Ireland. In most regions of these countries, SACCOs are much larger than commercial banks [5]. In Africa, there are an estimation of over 60 million people who depend on SACCOs. However, the challenges experienced by the SACCOs in Africa are similar to those encountered by their counterparts in other parts of the globe [6]. Notably, the economies under which SACCOs function are characterized by weak governance systems and unfavorable legislation. In particular, the challenges that threaten the operations of SACCO are either internal or external. The internal challenges range from leadership issues, inadequate resources, insufficient technology, and increased demand for quality services, ethics and integrity, and firm characteristics of SACCOs [7]. In South Africa, the Savings and Credit Cooperative League of South Africa (SACCOL) is representative of all registered SACCOs in the country as their national association. The SACCOs have over 13,500 members with R70 million in Assets mobilized. SACCOL services its member organizations by providing training, advice, and other technical services as well as accepting deposits from and making loans to its members, through the Central Finance Facility (CFF). It also monitors and regulates SACCOs [8]. Co-operative financial institutions (CFIs) are viable alternatives to the commercial banking sector for accessing financial services for lower-income individuals in South Africa. CFIs, enable communities to create self-managed financial services and provide education to members, elected representatives, and employees. The CFIs are regarded not only as an alternative to commercial banking but also as providers of appropriate financial tools based on people's needs [9]. The number of SACCOs in this country has been increasing from 4,000 in 2004 to 132,000 in 2016. Financial cooperatives have consequently played an important role in addressing socioeconomic challenges facing marginalized communities in a more sustainable way [10]. In Tanzania, the role of cooperative societies towards the unbanked has been increasing rapidly. While working democratically and openly, SACCOs have been providing financial support to millions while contributing substantially to the GDP. Despite this, in previous years, SACCOs in Tanzania have been subjected to various regulations to address certain challenges and make the industry more organized. This includes the Micro Finance Act of 2018. As the financial market continues to grow, the need for such regulations has been increasing to bring stability and security to the market. It is even more important in the informal sector where mostly cooperative societies operate. The new regulations have obligated SACCOs to follow accounting standards and practices to bring financial transparency to their operations [11]. In Uganda, SACCOs remain the most essential players in providing money-related services and have broader outreach than some other financial sectors. There are 10,800 SACCOs with a participation of 6 million members in the country. However, SACCOs in Uganda don't have access to the lender of last resort compared to the commercial banks. This makes them prone to poor financial performance [12]. SACCOs in Uganda face several challenges which have affected their operations. The poor financial performance of SACCOs in the country is largely attributed to poor investment decisions, poor risk management, and illiquidity among SACCOs. This has consequently affected their creditworthiness and loss of member's confidence [13, 14].

Statement Problem

In Uganda, like in many other countries, SACCOs play a significant role in contributing to the attainment of national development goals, including Vision 2040. Uganda Vision 2040 is a long-term development plan aimed at transforming the country into a middle-income status by the year 2040. SACCOs are well-positioned to provide access to credit for small businesses, farmers, and entrepreneurs. This access to credit is fundamental in stimulating economic activities and contributes to the growth of micro, small, and medium-sized enterprises (MSMEs). Given that a significant portion of Uganda's population resides in rural areas, SACCOs play a vital role in rural development by providing financial services and support for agricultural activities. This contributes to the overall economic development of these regions [15]. Despite these positive developments, SACCOs in Uganda, including Rushere, face various challenges that impact the effectiveness of their operations. If the challenges are not adequately addressed SACCOs, will continue encountering financial difficulties when executing their mandate [13, 16]. There is a need to therefore conduct a study that would provide recommendable solutions to improve their economic status. It is against this background that this study was conducted to establish the extent to which control environment strategy influences the financial performance of Rushere SACCO in Uganda.

Specific Objective

The specific objective of the study was to establish the influence of the control environment strategy on the financial performance of Rushere SACCO in Kiruhura District in Uganda.

The study was based on the following null hypothesis:

H₀ There is no statistically significant relationship between the control environment strategy and the financial performance of Rushere SACCO in Kiruhura District in Uganda.

Underpinning Theory

This study was based on the theory of stewardship theory. This theory was introduced by [17]. It proposes that good stewards work collectively rather than individually and are not instrumentally motivated, as are agents who subscribe to agency theory. According to [17, 18], this theory takes managers as collectivists, dependable, and pro-organizational, with behaviors that are associated with the interests of the principal. The theory indicates that managers will act in the organization's best interest even if there are no controls in place [19]. Managers are seen as good caretakers who attentively work to enable the organization to achieve higher profits and shareholder value [20]. However, this theory ignores the fact that, sometimes managers have diverging interests from those of the organizations they manage and are likely to work towards their interests at the of their organizations. According to [18], it is also important to provide alternative theories that may try to challenge the chosen theory by taking into account the limitations of the chosen theory. In the alternative theory, managers are seen as agents and are willing to work in the best interest of the principal. Based on this theory the study endeavored to establish the nature of control environment strategies the management of Rushere embraced to safeguard the financial performance of the SACCO.

Control Environment on Financial Performance of SACCOs

[21], sought to determine the effects of internal accounting controls on the financial performance of deposit-taking SACCOs in Kenya. Specifically, to examine the effect of a control environment on the financial performance of SACCOs in Kenya. The study employed a mixed research design targeting 175 SACCOs with 875 respondents. A purposive sampling technique was used. The participants were chosen based on the purpose, hence the name CEO, Finance Managers, Risk Managers, ICT Managers, and Internal Auditor. Data was collected by use of both primary and secondary techniques. A pilot study was conducted to establish the validity and reliability of research instruments. Primary data collection was by use of questionnaires while secondary data involved documentary analysis to capture information on financial performance. A pilot study was conducted in Nairobi County. Validity was achieved using content and construct validity where KMO value was 0.870 which signified factor analysis was appropriate. Cronbach Alpha was applied to establish reliability which had a range between 0.848 for the control environment to 0.916 for financial performance. Data was analyzed by use of descriptive and inferential statistics. Descriptive analysis included measures of central tendency and percentage while inferential analysis involved regression analysis. From the results, there was a significant positive relationship between the control environment and financial performance ($r=0.764$, $P=0.000$), control environment explains 58.4% ($R^2 = 0.584$) of variance in financial performance, the beta value for control environment control from the regression model was 0.323 at $p < 0.05$. The study concluded that the control environment has a significant positive effect on financial performance. The study recommended that control environment techniques should be proactive and thus opportunity and justification to commit fraud would reduce hence increase financial performance. [22], investigated the impact of internal controls on the financial performance of Savings and Credit Cooperative Societies (SACCOs) operating in Nairobi County, Kenya. More specifically, the research sought to understand the effects of segregation of duties, approval controls, physical controls, arithmetic controls, and organizational plans on the financial performance of deposit-taking SACCOs in Kenya. The study was grounded in agency theory, stakeholder theory, and systems theory. It utilized a descriptive survey design and focused on a target population of 42 registered deposit-taking SACCOs. A census survey technique was adopted, incorporating all 42 SACCOs in Nairobi County. Primary and secondary data were gathered via structured questionnaires, administered using a drop-and-pick method. The data was analyzed SPSS software, with descriptive statistics such as mean and standard deviation and inferential statistics including correlation and regression analyses used. The study found that the segregation of duties, approval of accounting transactions, physical controls, arithmetic controls, and the organization's plan significantly influence the financial performance of SACCOs in Nairobi County. Thus, the study concluded that these variables greatly impact the performance of deposit-taking SACCOs in the county. The study further recommended that government bodies such as the Sacco Societies Regulatory Authority (SASRA) should develop policies guiding deposit-taking SACCOs on improving their segregation of duties, approval of accounting transactions, physical controls, arithmetic controls, and organizational plans. This will substantially enhance the financial performance of these firms.

[23], examined the contribution of the internal control system on the financial performance of cooperative banks in Rwanda concerning Zigama Credit and Saving Society. Specifically, the study assessed the effect of the control environment on control activities and risk assessment on the financial performance of Zigama Credit and Savings Society. The significance of research will be on practitioners, decision-makers, and researchers to get knowledge about internal control systems. The researcher used a descriptive and correlation study design with a mixed approach on a sample of 167 participants drawn from 287 populations using the Yamane formula. A simple random technique was employed to obtain respondents and purposive sampling techniques were employed to choose participants information was collected using a questionnaire administered to respondents. Data entry, response code, editing, and tabulation were used for data analysis. Data were analyzed descriptively and regression analysis helped

to general association between independent and dependent variables. Qualitative information analysis used content analysis. Data from the first objective showed that a unity of variation in the control environment may stimulate a change in financial success by 0.482. Results indicated that assessing risks as a factor of internal control of the firm impacts the financial success this shows that managing risks had put in place an assessment for reducing critical risks that can come from risk management where they had to assess risk that they are committed to assume responsibilities. In conclusion, the adequate control environment for suitable functions to the success through audit done and the extent to which workers are committed is still at a minimum level. The study recommended that the managing team would rely on the clarification of duties, follow-up, and cost revision, and should rely on risk measurements. Review of daily transactions should be trained regularly to enhance their ethical values and their commitment at the workplace. Rigorous policies and procedure manuals must be applied accordingly.

[24], conducted a study to establish the mediating effect of financial accountability in the relationship between the internal control environment and financial performance of savings and credit cooperatives (SACCOs). The purpose of this study was to establish the mediating role of financial accountability in the association between the internal control environment and financial performance. A cross-sectional research design and positivist paradigm were used to collect data using a close-ended questionnaire. Also, a standard regression analysis, Medgraph program, and Baron and Kenny approach were adopted to test for the mediation effects. Based on the target population of 122 SACCOs, a sample of 93 SACCOs was selected using a probability sampling technique. It was revealed that the true drivers of financial performance in the SACCO sector are financial accountability and the internal control environment. Nevertheless, financial accountability exhibits a partial form of mediation in the association between the internal control environment and financial performance. [25], investigated the impact of Internal Control Components (ICC) on the Financial Performance (FP) of the Iraqi SACCOs sector. The selected components were control environment, control activity, risk assessment, information & communication, and monitoring. The theoretical framework in this study was based on the Agency theory. A quantitative approach using Structural Equation Modelling (SEM) was utilised as the main study design. The data was collected from a group of respondents comprising the CFO, CEO, Accountants, Internal Auditors, and Audit Committee selected through non-random purposive sampling. The actual survey questionnaire was distributed to 365 respondents, and the data were analysed using SEM to determine the impact between Internal Control Components and Financial Performance. The study results indicated that the internal control components have a significant impact on Financial Performance. The positive significant relation was control activity ($\beta = 0.311, p < 0.05$), followed by risk assessment ($\beta = 0.203, p < 0.05$), monitoring ($\beta = 0.176, p < 0.05$), control environment ($\beta = 0.164, p < 0.05$) and information & communication ($\beta = 0.157, p < 0.05$). In conclusion, the control activity is the most dominant ICC factor that affects financial performance. The main implication of the study is that Iraqi SACCOs should focus on the improvement of Internal Control Components to enhance financial performance. [26], established the relationship between the control environment and financial performance of SACCOs in Mid-Western Uganda. A cross-sectional research design and positivist paradigm were used to collect data from 93 SACCOs in Mid-Western Uganda. A closed-ended questionnaire was used to collect data. Correlation and standard linear regression analyses were conducted. The study findings reveal a strong, positive, and significant relationship between the control environment and financial performance of SACCOs in Mid-Western Uganda. This study emphasized the need for top management to emphasize the importance of designing and implementing an effective and efficient control environment. In addition, the government of Uganda needs to review its strategies that are geared at ensuring that SACCOs achieve sustainable financial performance. [27], conducted a study to find out whether the control environment affects the financial performance of SACCOs in Bushenyi-Ishaka municipality. It was guided by one objective which was to determine the relationship between the control environment and financial performance of SACCOs in Ishaka division. The study adopted descriptive cross-sectional and correlational designs with both quantitative and qualitative approaches. A total population of 130 was involved which included employees, the supervisory committee, the loan committee, and board members from which a sample of 98 respondents were selected using Slovene's formula. Out of 98 respondents, 90 respondents responded positively. Data was collected using a questionnaire and interview guide and analyzed using descriptive statistics and chi-square for quantitative data and thematic analysis was used for analyzing qualitative data. Findings indicate that there is a significant relationship between the control environment and the financial performance of SACCOs and the control environment contributes 69% to the financial performance of SACCOs in Bushenyi-Ishaka municipality. From the study findings, the study recommended that SACCOs in Bushenyi-Ishaka municipality should create a conducive control environment like putting in place a disciplinary committee to handle disciplinary issues and include communication as part of their internal control system.

RESEARCH METHODOLOGY

This study utilized a descriptive research design. Using this design, the views, perceptions, and opinions of respondents on the control environment and financial performance of Rushere SACCO were sought. The study

thereafter described the responses obtained statistically in figurative terms. The study was based on a quantitative research approach in which the data collected and the hypotheses were analyzed and presented numerically. The study was carried out in Rushere SACCO in Kiruhura District in Western Uganda. This was a case study research design in which the unit of inquiry was a single organization. The target population for this study was composed of 160 participants drawn from employees, customers, supervisory committees, and board members in different proportions as shown in Table 1. These participants were chosen purposively because they were presumed to have sufficient experience and knowledge to respond to the research questions based on the control environment and financial performance of the SACCO under the study.

Table 1: Target Population

Category	Target Population
Employees	28
Customers	120
Supervisory committee	5
Board members	7
TOTAL	160

Source: (Rushere SACCO Annual Report, 2022). A sample size of 115 respondents was obtained from the target population of 160 using [28] as shown below:

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

Where;

n= sample size

N= target population

e= margin of error (5%)

n= 115

Table 2: Sample Size

Category	Target Population	Sample size
Employees	28	20
Customers	120	86
Supervisory committee	5	4
Board members	7	5
TOTAL	160	115

Source: (Researcher Computation, 2023)

From the sample size, the study used stratified random sampling to select respondents from each stratum proportionally. This was done by the use of proportionate stratified sampling. From the lists presented to the researcher, individual respondents from each group were then selected randomly to provide equal opportunity for all subjects to participate in the study. This was done through simple random sampling with the aid of computer-generated random numbers. The chosen respondents then became units of analysis. Primary data for this study was obtained by the use of self and researcher-administered structured questionnaires. The closed-ended questions were based on the research objectives and framed on a Likert scale of 5. Secondary data was collected from relevant journals and published reports. This information was used for theoretical and empirical review of the literature as well in the discussion of research findings. For quality control, the research questionnaires were tested for validity and reliability using content analysis and Cronbach's alpha (a) Coefficients respectively. This was intended to reduce errors in the research instruments by ensuring that the questions asked were accurate and consistent. The correct procedures were used to collect primary data from the field and research ethics were observed while conducting the study. The collected data was edited, organized, and coded for analysis. Descriptive statistics were used to obtain responses from the respondents on the demographic of the respondents. This involved the use of percentages and frequency distribution tables. Inferential statistics was used to establish the relationship between the independent variable (control environment strategy) and dependent variable (financial performance of Rushere SACCO). Linear regression analysis was used for this purpose. The hypothesis was tested at a 0.05 significance level. The results were displayed using suitable frequent distribution tables based on APA format version 6.

RESULTS
Response Rate

From the 115 questionnaires given out to collect primary data, only 95 were collected. This indicated a response rate of 83%. This was considered adequate for this research. This response rate was considered adequate for the study [29].

Linear Regression Analysis

Linear Regression analysis was used to measure the influence of control environment strategy on financial performance as shown in Table 3.

Table 3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.965 ^a	.932	.931	.21853

a. Predictor: (Constant)

Source: Field Data (2023)

The coefficient of determination (R^2) and correlation coefficient (R) show the degree of correlation between the control environment strategy and the financial performance of Rushere SACCO. The results of this linear regression analysis show that $R^2 = 0.932$ while $R = 0.965$. The R-value = 0.965 shows that there is a strong linear relationship between the control environment strategy and the financial performance of Rushere SACCO. The R^2 value of 0.941 indicates that 94.1% of internal controls explain the variation in financial performance of Rushere SACCO when other factors are held constant. The analysis indicates the existence of a strong significant relationship between the control environment strategy and the financial performance of SACCO.

Table 4: ANOVA^a

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	81.833	1	81.833	1713.565	.000 ^b
	Residual	5.969	125	.048		
	Total	87.802	126			

Dependent Variable: Financial Performance

Predictor: (Constant), Control Environment Strategy

Source: Field Data (2023)

The F-value in Table 4 signifies the importance of all the variables in the equation, confirming the overall significance of the regression. The ANOVA results confirm that the model fit is appropriate for this data. The calculated p-value of 0.000 is less than the critical value of 0.05. This implies the existence a positive significant relationship between the control environment strategy and the financial management of Rushere SACCO. The F-statistics of 1713.565, reflects that the results are highly significant ($P < 0.000$) and it was very unlikely that they were computed by chance. The results show that the model fit is significant and improves the ability to predict the outcome.

The study further established the regression model coefficients to be used in the regression equation as shown in Table 5.

Table 5: Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.214	.076		2.807	.006
		.873	.021	.965	41.395	.000

a. Dependent Variable: Financial Performance

b. Predictor: (Constant), Control Environment Strategy

Source: Field Data (2023)

The findings of this analysis revealed that there is a positive linear influence of the control environment strategy on financial performance. Since ($\beta_1 = 0.214$, $p = 0.000 < 0.05$), the study established that there is a significant relationship between the control environment strategy and the financial performance of Rushere SACCO. The findings show that an increase in the control environment increases the financial performance of the SACCO by units 0.873. From this analysis, the coefficients generated the regression equation as expressed by; $Y = 0.214 + .873 X_1$

Hypothesis Testing

The null hypothesis was tested using the inferential statistics above. This was done to verify if the control environment strategy influences the financial performance of Rushere SACCO.

Decision Rule

The null hypothesis is rejected if the calculated p-value is less than the table value of 0.05 and vice versa. From Table 4 it is clear that the calculated p-value of .000 is less than the critical value of 0.05. Consequently, the null hypothesis was rejected and the alternative hypothesis was adopted which stated that there is a significant relationship between the control environment strategy and the financial performance of Rushere SACCO.

DISCUSSION OF FINDINGS

The linear regression analysis revealed that there is a significant relationship between the control environment strategy and the financial performance of Rushere SACCO since the p-value obtained is 0.000, less than the critical value of 0.05 as shown in Tables 4 and 5. The findings of this study concur with [21], who established that a controlled environment has a significant positive effect on financial performance. Consequently, this study recommended that control environment techniques should be proactive to reduce fraud and increase financial performance. The results of this study also comply with [22] who observed that the segregation of duties, approval of accounting transactions, physical controls, arithmetic controls, and the organization's plan significantly influence the financial performance of SACCOs. Their study concluded that control environment variables greatly impact the performance of deposit-taking in SACCOs. The findings are further in line with [23] who observed that an adequate control environment is necessary for the success of SACCOs and proposed implementation of suitable measures based on the clarification of duties, follow ups, cost revision, and risk measurements to ensure sufficient performance of these firms. The findings comply with [24] who revealed that the true drivers of financial performance in the SACCO sector are financial accountability and internal control environment and that financial accountability exhibits some form of mediation between the internal control environment and the financial performance of SACCOs. These findings are also in line with [25], who observed that internal control components have a significant impact on financial performance. Their study identified control activity, risk assessment, monitoring, control environment, and information & communication as the variables that significant effect on SACCOs' performance. The findings also concur with [26-29] who revealed a strong, positive, and significant relationship between the control environment and financial performance. Their study emphasized the need for top management to emphasize the importance of designing and implementing an effective and efficient control environment.

CONCLUSION

This study established a strong significant relationship between control environment strategy and the financial performance of Rushere SACCOs. This implies that effective control environment strategies when adopted well contribute significantly to the improved financial performance of SACCOs.

Recommendations

Following the positive relationship between control environment strategy and financial performance the study makes the following recommendations:

- The SACCO should implement a robust system for continuous monitoring and evaluation of the control environment. It should regularly assess and update internal control mechanisms to adapt to changing circumstances.
- The management of the SACCO should develop and implement comprehensive risk management strategies. This would help to Identify and assess potential risks to the SACCO and establish proactive measures to mitigate these risks. This can include diversifying investment portfolios and implementing insurance coverage.
- The SACCO should enhance transparency in financial reporting. This would help to provide clear and accurate financial statements to members, regulators, and other stakeholders. Transparent reporting builds trust and confidence in the SACCO.
- Finally, the management of the SACCO should integrate control environment considerations into the overall strategic planning process. This would help align the SACCO's control objectives with its broader financial and organizational.

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