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CORPORATE GOVERNANCE PRACTICES AND FINANCIAL PERFORMANCE OF CREDIT UNIONS IN GHANA: A CASE STUDY OF UNIVERSITY OF GHANA CREDIT UNION

NANCY S. KKWAFKWAO

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By

NANCY S. KKWAFKWAO

Dissertation submitted to the Department of Accounting and Finance, School of Business, University of Cape Coast, in partial fulfilment of the requirements for award of Master of Business Administration (General Management)

OCTOBER 2015

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DECLARATION

Candidate's Declaration

I hereby declare that this dissertation is the result of my own original research and that no part of it has been presented for another degree in this university or elsewhere.

Candidate's Signature: …………………………………   Date: ………………………

Name: Nancy S. Kkwafkwao

Supervisor's Declaration

I hereby declare that the preparation and presentation of the dissertation were supervised in accordance with the guidelines on supervision of dissertation laid down by the University of Cape Coast.

Supervisor's Signature: ……………………………   Date: …………………

Name: Dr. Zangina Isshaq

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ABSTRACT

A lot of individuals are joining credit unions because of its advantages over the formal banking sector and other microfinance institutions. This study primarily sought to identify and examine the corporate governance systems and financial performance of the University of Ghana (UG) credit union. More specifically to identify the corporate governance systems in place, examine the risk management structures, and examine the financial performance of the credit union over the last decade using the PEARLS evaluation system. The primary data for the study was the financial statements of the University of Ghana credit union from 2005 to 2015.

The results of the study indicate that University of Ghana credit union does not have a very robust corporate governance system. There is no well-defined skills and academic competencies requirements for selection onto the management board and different committees of the union. The credit union has adequate risk management systems in place to manage credit and liquidity risks. UG credit union has an adequate effective financial structure although it is not maximising its loan asset portfolio. On the whole, the union's financials are good which is reflected in its growth. It is recommended that the even numbered board composition of the management board, the loans and supervisory committees should be made odd numbered. There should be a well-defined skills and academic competencies requirements for all members who want to serve on any committee. Management should also maximise its loan portfolio because it is its most productive asset.

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Finally, I wish to thank all and sundry who, in diverse ways contributed to the successful completion of this work. But for obvious space constraints, I would have provided a long list covering you all.

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DEDICATION

To my daughter, Kim for her indispensable support.

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CHAPTER ONE

INTRODUCTION

Background of the Study

The importance and influence of corporate governance on the operations of organisations have increased over the past two decades. This can be attributed to the evolving organisational structure of most organisations. Organisations have evolved from sole proprietorships to partnerships through to limited liabilities where the interest of shareholders, individual investors, institutional investors and other stakeholders need to be protected. The individual interests of shareholders, individual investors, institutional investors and other stakeholders lead to potential conflicts of interests between directors who manage the resources of the organisations and the shareholders who own the organisations. Good corporate governance has been identified as a means to curtail this potential conflict between the different stakeholders (Arjoon, 2006; Baysinger, Kosnik & Turk, 1991).

In Ghana, credit unions are semi-formal suppliers of microfinance. Credit unions are member-owned financial institutions (cooperatives) that have no external shareholders, with each member having the right to one vote in the organisation (Ledgerwood, 1998). Members may deposit money with the organisation or borrow from it, or both. The operations of credit unions in Ghana have evolved over time. They have survived and thrived under different political and economic regimes. The phenomenon of credit unions has become an integral part of Ghana's financial sector.

Credit unions in Ghana have seen exponential growth starting from the first credit union in Ghana and Africa formed by Rev Father John McNulty in 1955 in the Upper West Region to the current four hundred and fifty-five (455) scattered around the country (CUA, 2015). As at 2013, there were 56,904 credit unions worldwide and 22,385 of them were

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found in Africa presenting approximately 39 percent of total credit unions worldwide (WOCCU, 2014).

According to the Ghana banking survey 2011 conducted by PricewaterhouseCoopers (Ghana) Ltd (PwC), the unbanked sector of Ghana's population was over 80 percent. In 2012, Ghana's banking penetration measured as the ratio of asset-to-GDP was 39 percent (ECOBANK, 2013). In 2014, a large percentage of the Ghanaian population was still unbanked. Many people preferred to keep their monies at home and avoid banking services especially with the introduction of new taxes on banking services by government (PwC, 2014).

Financial access in Ghana is low. According to Demirguc-Kunt and Klapper (2012), about 29 percent of adults in Ghana have accounts with formal financial institutions. Furthermore, only about 30 percent of the population aged 15 years or older have an account at a formal financial institution (Lee et al., 2015). This implies that majority of Ghanaians do not transact their financial businesses with formal financial institutions such as the banks but rather engage in financial and economic activities outside the banking sector. Credit unions are a major part of the non-bank financial service providers in Ghana.

In order for members of a credit union to fully realise the benefits and reduce the potential risks, the credit union must have a good corporate governance structure. The benefits of good corporate practices are well articulated in literature (Denis & McConnel, 2003; OECD, 2004; Abdullah & Valentine, 2009). Good corporate governance involves having a robust internal control system, a quality human resource base, appropriate motivation packages, a good board and management, etc.

The operations of an institution or organisation require sound internal controls that will minimise or eradicate any risk exposure and consequently will translate into successful realisation of the organisation's goals. The internal control system of a credit union can be

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defined as "a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance" (COSO, 2013). Therefore, the availability of strong internal controls may not completely remove financial fraud or mistakes but it provides a greater assurance of sound, effective and efficient management of the organisation.

Human resource constitutes the greatest asset of every organisation (Haslinda, 2009). For an organisation to maximise its investment in capital and technology, they need to have the best human resource. The organisation can either train existing staff or attract the best in the industry. This implies that the organisation should be in the position to appropriately remunerate their staff. Given that credit unions are also competing with commercial financial institutions that have more financial resources to attract the best human resource, the credit union losses out. This creates a challenge for credit unions because the quality of human resource at the level of the board, management and employees influence the good corporate governance systems implemented in that organisation.

Also, the risks involved in operating a credit union can be from both the management of the union and the members contributing to the union. In the quest to increase returns to members or meet other set targets, management or individual officers may feel pressured. This pressure could result in the directors making risky and nonstrategic decisions that expose the union unduly. Also, as a human institution, there is the plausibility of fraud and embezzling of union funds on the part of management. This challenges call for internal control systems and good corporate governance systems that minimise these risks.

Statement of the Problem

Given that in Ghana, most people do not transact business with the formal banking sector (PwC, 2011), the proper management of non-bank financial institutions like credit

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unions, microfinance institutions and 'susu' schemes are needed. Therefore, the assessment of the internal controls, good corporate governance systems and financial performance of non-bank financial institutions and for that matter credit unions in Ghana to avert the exploitation of this group of people is paramount.

Credit unions are growing rapidly in Ghana. The registered credit unions in Ghana as at 2014 was 455. As at 2014, the total membership of credit unions in Ghana was 490,167. The total number of employees was 2,384. Members' deposits (shares and savings) was GHC 475,966,676. Loans outstanding was GHC 289,861,735. Total assets was GHC 565,435,725 with liquidity levels at GHC 167,367,557 (CUA, 2015). Different organisations and groups are setting up their own credit unions. These unions are promising members attractive packages and benefits when they join. The credit unions enumerate benefits like; timely access to funds in times of difficulty, owning shares in the union, access to low interest loans and attractive return on savings. The managers of these unions juxtapose these benefits to the exorbitant interest rates, the low interest rate paid on deposits and high service charges charged by microfinance institutions and banks to make their case.

Despite the potential benefits of credit unions, credit unions have greater risk exposure since they deal more with the informal sector where the issues of reliable documentation are a challenge. Therefore, ineffective internal controls and lack of good corporate governance can result in fraud, waste, abuse and mismanagement of the agency's resources (FAH, 2013). As such, monitoring and assessing the corporate governance systems of credit unions are a critical tool in measuring and determining the effectiveness of the organisation's ability to achieve and deliver on its said objectives and services. Also, weak internal controls can heighten the risk exposure of the company and thus weaken the financial performance of the company.

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Based on the above issues, the question that arises is: what are the corporate governance systems in place to reduce the risk exposure of credit unions and as a consequence lead to improved financial performance of credit unions?

Research Objectives

The general research objective of this study is to identify and examine the corporate governance systems of the University of Ghana credit union. The specific research objectives to achieve the general research objective are as follows:

1. Identify the corporate governance systems in place at the University of Ghana credit union.
2. Examine the risk management structures within the University of Ghana credit union.
3. Examine the financial performance of the University of Ghana credit union over the last decade.

Research Questions

The general research question for this study is: what are the corporate governance systems in place in the University of Ghana credit union to promote financial sustainability? The specific research questions that will address the general research question stated above are presented below:

1. What are the corporate governance systems in place at the University of Ghana credit union?
2. What are the risk management structures within the corporate governance systems of the University of Ghana credit union?
3. What is the financial performance of the University of Ghana credit union over the last decade?

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Significance of the Study

This study is critical because, it will bring to light the corporate governance system of one of the most successful credit unions in Ghana. As such, the study will be an indicator of how credit unions in Ghana have incorporated into their operations acceptable standards adopted by the World Credit Union Association.

Previous studies by Addae-Korankye (2014) and Owusu, Oppong, Agyeiwaa and Abruquah (2015) have looked at the rate of loan default among credit unions in Ghana and why those levels of default. One subject that has not received a lot of attention is whether the credit unions are being operated on sustainable bases. This study is important because, it focuses not only on the University of Ghana credit union but also on its financial performance and whether the operations of the union are sustainable.

Finally, this study will update the current literature on credit unions in Ghana.

Limitation of the study

Although a case study gives me the opportunity to do an in-depth analysis of the University of Ghana credit union, this approach also has limitations. The major limitation of this approach is degree to which the findings of the study can be generalised. Although, the University of Ghana credit union fits the characteristics of a typical Ghanaian credit union, the uniqueness of every organisation introduces a certain level of bias in its results. Therefore, the reliability and replicability of the findings can be a challenge.

In addressing specific objective one of my study, I want to identify the corporate governance systems of the University of Ghana credit union and compare them with best standards and practice to determine whether these controls promote good corporate governance. The nature of questions administered to the University of Ghana credit union does not give me enough information to verify whether the standards the credit union has on its books is actually being implemented.

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Organisation of the Study

The study is organized in five chapters. The remainder of the study is organised as follows: Chapter two covered the literature review. Some of the topics literature was reviewed on include; history of credit unions locally and internationally, the importance of credit unions, the importance of good corporate governance especially in a financial institution, measurement of risk and financial sustainability of credit unions.

In chapter three, the methodology of the study is presented. The methodology covered the research design, description of population, the sampling procedure and characteristics of the sample, the data collection procedure and data analysis.

The fourth chapter presents the results and discussions of the study. The chapter is in two main parts. The first part covered the results of the study. The second part discussed the results obtained based on my understanding of the issues in focus.

The final chapter covers the summary, conclusions and recommendations. The chapter is in three main parts. The first part is the summary section. An overview of the entire study ranging from the research objectives through to methodology and finally the findings was presented. The conclusions part of the chapter presented my position regarding the research questions and objectives raised at the beginning of this study. Finally, the recommendations part of this chapter presented my policy suggestions based on my findings.

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CHAPTER TWO

REVIEW OF RELATED LITERATURE

Introduction

This chapter presents the literature review of the study. The chapter is divided into eight parts. The first part covers the history of credit union formation. The second part presents an overview of credit union operations in the world. The third and fourth parts covers credit unions in Africa and Ghana respectively. The fifth part presents the profile of UG credit union. The sixth part presents the duties of the staff of the University of Ghana Credit union. The seventh part looks at topical issues on corporate governance. The final part covers empirical studies on corporate governance, credit unions and the Protection, Effective financial structure, Asset quality, Rates of return and cost, Liquidity and Signs of growth (PEARLS) evaluation system.

History of credit unions

The first true credit unions were formed by Herman Schulze-Delitzsch and Friedrich Wilhelm Raiffeisen in the mid-19th century. This was after the idea of cooperative activities were proposed in the early 19th century in Europe. Schulze-Delitzsch founded the first "people's bank" in 1852 to provide credit to entrepreneurs in the city. This was after he organised a cooperatively owned mill and bakery. Raiffeisen also established a credit society in Flammersfeld, Germany in 1849 that depended on the charity of wealthy men for its support. Raiffeisen later on in 1864 organised a new credit union for farmers along the principles of cooperative interdependence, a community-first mentality and a volunteer management structure that are still fundamental today to the operations of credit unions (WOCCU, 2016).

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Since 1864, credit union growth and establishment spread around the world. In the early 1900s Alphonse and Dorimene Desjardins started a credit union (*caisse populaire*) in Lévis, Quebec. Shortly thereafter, Alphonse, along with Edward Filene and Roy Bergengren, helped establish credit unions in the United States. The concept of credit unions caught up with people and on 17th January, 1927, the Credit Union League of Massachusetts celebrated the first official credit union holiday. The choice of this date was because it was the birthday of America's "Apostle of Thrift," Benjamin Franklin, who early credit union founders believed symbolized "the life and teaching embodied in the spirit and purpose of credit unions" (WOCCU, 2016).

However, the Credit Union Day faded away with time. In 1948, the U.S. Credit Union National Association (CUNA) initiated a new national Credit Union Day celebration. During the 1950s, CUNA's World Extension Department provided assistance in the form of technical and philosophical guidance to other credit unions that were being setup around the world. The CUNA by 1964 launched the CUNA International. This saw the addition of new unions annually. By 1971, substantial worldwide credit union progress led to the creation of World Council of Credit Unions (WOCCU). The purpose of the WOCCU was to assist other credit unions in establishing and maintaining viable credit union movements. In Canada, Australia, Latin America, the Caribbean, Africa, Asia, New Zealand, Great Britain and the South Pacific, national and regional credit union federations and confederations were established to support and endorse credit union development (WOCCU, 2016).

Overview of credit union in the world

The World Council of Credit Unions (WOCCU) is the recognised body heading all credit unions worldwide. As presented in Table 2.1, as at 2014, credit unions worldwide was estimated to be 57,480 with a total membership of 217,373,324 in 105 countries on 6 continents (WOCCU, 2015a). The WOCCU is the global trade association and development

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agency for credit unions and financial cooperatives. On behalf of its member organisations, the council advocates for appropriate legislation and regulation on global and national levels. The council promotes sustainable credit union development around the world to empower people through access to high quality and affordable financial services. In response to the high demand for information on accountability and transparency, the global association has "International Credit Union Principles". These principles are the foundation for how credit unions differ from other financial institutions. The principles provide frameworks for consumer protection, credit union operations, governance and safety and soundness standards (WOCCU, 2015b).

Not all credit unions in the world are members or affiliates of the world council of credit unions. As at 2014, 17,075 credit unions were either members or affiliates of the council. About 40,405 credit unions belonged to other credit union countries. Over the past decade, the credit unions around the world has seen steady growth in terms of formation of new credit unions and in the total asset of the credit unions (WOCCU, 2015a).

Table 2.1: Credit union member statistics in the world

Year	**Countries**	**Credit Unions**	**Members**	**Assets (US$)**
2014	105	57,480	217,373,324	1,792,935,093,480
2013	103	56,904	207,935,920	1,732,945,830,628
2012	101	55,952	200,243,841	1,693,949,441,327
2011	100	51,013	196,498,738	1,563,529,230,923
2010	100	52,945	187,986,967	1,459,605,561,772
2009	97	49,330	183,916,050	1,352,608,897,477
2008	97	53,689	185,800,237	1,193,811,863,722
2007	96	49,134	177,383,728	1,181,465,915,014
2006	96	46,367	172,007,510	1,092,135,905,636
2005	92	42,705	157,103,072	894,454,835,782

Source: *Statistical Report*, World Council of Credit Unions, Inc. (2014)

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In 2014, the Council initiated a global membership growth campaign to extend credit union services to at least 50 million new people by the year 2020. With this growth campaign, they envisage to have a total membership of 260 million membership worldwide by 2020. The Council believes this campaign will enable them reach the about 2 billion unbanked people in the world. Out of this figure, 55 percent of them are women, 54 percent of them are of the poorest 40 percent of households in developing countries and 54 percent are young adults between the ages of 15-24 (WOCCU, 2015c). To successfully execute this campaign, the council will work with credit union systems to:

- Provide technical assistance and training to credit union management and board of directors
- Reduce regulatory burden
- Increase young adult outreach
- Implement financial education programme
- Offer robust product offering
- Expand remote access to services via technology
- Link payment networks to financial services (WOCCU, 2015c).

International Credit Union Operating Principles

According to the International Credit Union, its Operating Principles are founded in the philosophy of cooperation and its central values of equality, equity and mutual self-help. Given the different opinions on how credit unions should be ran, the underlying theme of these universal operating principles is the concept of human development and the brotherhood of man expressed through people working together to achieve a better life for themselves and their community. Under the Operating Principles, there are three broad segments. These are democratic structure, service to members and social goals (WOCCU, 2007).

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Democratic Structure

1. Open and Voluntary Membership: Membership in a credit union is voluntary and open to all. Everybody who wants to benefit from the union must equally accept the responsibilities that come with membership.
2. Democratic Control: Credit union members enjoy equal rights to vote and participate in decision affecting the credit union. Every member is entailed to a single vote. Voting is not dependent on the quantum of money or resources you have with the union. However, where there is proportional representation in the union, this ratio should be reflected when it comes to voting. The credit union is a legal autonomous entity which is a cooperative enterprise and controlled by its members. Credit union elected offices are voluntary in nature and incumbents should not receive a salary. However, credit unions may reimburse legitimate expenses incurred by elected officials.
3. Non Discrimination: Credit unions are non-discriminatory in relation to race, nationality, sex, religion, and politics (WOCCU, 2007).

Service to Members

Credit union services are directed to improve the economic and social well-being of all members.

1. Distribution to Members: the credit union must encourage savings through the provision of a fair rate of interest on loans taken by members and on savings and deposits by members. At all times this rates must reflect the ability of the union to pay and not to compromise the sustainability of the union. Any surplus that comes to the union from its operations should be fairly distributed to all members. This surplus may be distributed among members in proportions to their transactions with the credit

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union as interest or patronage refunds, or directed to improved or additional services required by the members.

2. Building Financial Stability: A prime concern of the credit union is to build the financial strength, including adequate reserves and internal controls that will ensure continued service to membership (WOCCU, 2007).

Social Goals

1. On-Going Education: Credit unions actively promote the education of their members, officers, and employees, along with the public in general, in the economic, social, democratic, and mutual self-help principles of credit unions. The promotion of prudent use of credit, and also the education on the rights and responsibilities of members, are essential to the dual social and economic character of credit unions in serving member needs (WOCCU, 2007).
2. Cooperation among Cooperatives: In keeping with their philosophy and the pooling practices of cooperatives, credit unions within their capability actively cooperate with other credit unions, cooperatives and their associations at local, national, and international levels in order to best serve the interests of their members and their communities (WOCCU, 2007).
3. Social Responsibility: Continuing the ideals and beliefs of the cooperative pioneers, credit unions seek to bring about human and social development. Their vision of social justice extends both to the individual members and to the larger community in which they work and reside. The credit union ideal is to extend service to all who need and can use it. Every person is either a member or a potential member and appropriately part of the credit union sphere of interest and concern. Decisions should be taken with full regard for the interest of the broader community within which the credit union and its members reside (WOCCU, 2007).

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Overview of credit union in Africa

The Africa association of credit unions is headed by the African Confederation of Cooperative Savings and Credit Association (ACCOSCA). This body is a non-governmental, Pan African confederation of national associations of savings and credit cooperatives societies. It started operations in 1968 and is headed quartered in Kenya. The association is a member of World Council of Credit Unions (WOCCU). It is governed by domicile laws and ACCOSCA constitution. The general assembly which currently comprises of 27 countries is the highest decision making body of the association (ACCOSCA, 2016).

The association has developed programmes aimed at improving the socio-economic needs of Africa through saving and credit unions, partnering with various government bodies, development agencies and research institution so as to contribute towards mitigating challenges facing Africa in the twenty first century aimed at effectively supporting members, working on bringing services to the people not generally served by the formal sector. The objectives of the association include (ACCOSCA, 2016):

- Promoting the establishment of an institutional framework for mobilizing personal saving and credit cooperatives
- Capacity Building
- Technical Assistance
- Financial assistance and services to the African cooperatives saving and credit associations
- Information exchange i.e. discussion of common experiences
- Research

As shown in Table 2.2, the association as at 2014, had a total membership of 20,422 credit unions, a membership of about 19,000,000 and an asset base of about US$8.1 million.

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It is worth pointing out that the total membership and asset of the credit unions has been on the increase over the past decade (WOCCU, 2015b).

Table 2.2 credit union member statistics in Africa

Year	Countries	Credit Unions	Members	Assets (US$)
2014	25	20,422	18,881,257	8,079,781,834
2013	25	22,385	17,032,310	7,175,113,937
2012	23	20,831	16,022,707	5,600,465,483
2011	24	18,221	17,950,633	4,926,148,558
2010	24	17,561	17,081,280	4,924,477,806
2009	22	14,404	15,594,818	3,950,256,995
2008	22	18,220	20,116,921	3,042,853,150
2007	22	11,849	15,123,110	3,416,933,878
2006	24	8,237	13,145,565	2,606,532,191
2005	22	7,468	9,602,714	2,059,575,430

Source: *Statistical Report*, World Council of Credit Unions, Inc. (2015)

Overview of credit union in Ghana

In September 1955, the first credit union in Africa was formed at Jirapa in the Upper West Region. In 1967, the Credit Unions in the North were united in a chapter and Credit Unions in the south also felt a need for joining together for training programs and an exchange of experience. In January, 1968 the idea of a national association of credit unions in Ghana was conceived. A conference was held in April in Tamale the same year giving birth to the Ghana National Union and Thrift Association, the forerunner of the Ghana Cooperative Credit Unions Association (CUA) Limited (CUA, 2016a).

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The Ghana Co-operative Credit Unions Association (CUA) Limited is a financial co-operative organization. Its aim is to be self-sustainable to be able to facilitate an enabling environment, provide quality financial and technical services to members as well as market the credit union concept in order to make "Credit Union" a household word (CUA, 2016b). The duties of CUA limited are to promote, educate, organize and support the credit union movement nationally and internationally. Currently, it has a membership of 490,167 who belong to 455 credit unions. Total assets of credit unions in Ghana is GHC565, 435,725. CUA is to regulate and supervise all the credit unions in the country on behalf of the Bank of Ghana and other interested groups for sanity to prevail in the market (CUA, 2016c).

CUA is member of the Ghana Microfinance Institutions Network (GHAMFIN) and co-operates with the Department of Co-operatives of the Ministry of Employment and Social Welfare and the Ghana Cooperative Council (CUA, 2016c). The CUA is affiliated to the African Confederation of Co-operative Savings and Credit Association (ACCOSCA) (ACCOSCA, 2016) and the World Council of Credit Unions (WOCCU) (WOCCU, 2016).

Profile of University of Ghana Credit Union

The University of Ghana Credit Union was established in 1971 with an initial membership of twenty (20). Currently, the Credit union has an estimated membership of 5,100. This membership is made up of the staff of the following institutions: University of Ghana, University of Professional Studies Accra, Wisconsin University College, Pentecost University, National Accreditation Board Staff, National Board for Professional and Technician Examinations (NAPTEX), Startrite Montessori Staff, and University of Health and Allied Sciences staff (UGCU, 2015).

The University of Ghana Credit union is affiliated to the Credit Union Association of Ghana (CUA). The Credit union has a Board of Directors, the Loans Committee, the Supervisory Committee and the Management team. The membership of these committees is

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based on representation by different constituencies in the credit union. The Credit union has classified membership based on constituency in line with staff groupings e.g. University Teachers Association of Ghana (UTAG), Ghana Association of University Administrators (GAUA), Senior Staff and Junior Staff. Election is conducted at the constituency level and the winners get to represent their constituents on the various committees. These three committees in managing the day-to-day affairs of the Union receive support from very qualified and competent staff (UGCU, 2015).

The services provided by the Credit union include; Loan account, shares account, savings account, fixed deposit account and Kiddy savings account. At the end of the 2012/2013 financial year, the Union made a net surplus of GH¢1,804,257.45. This represents a return of 8 percent on total average asset size and a phenomenal 96 percent growth over the 2011/2012 financial year surplus. As at the close of the 2014 financial year, the asset base of the Credit union was GH¢ 30.1 million (UGCU, 2015).

Duties of the staff of the University of Ghana, credit union

The Manager

1. To supervise and coordinate the activities of the staff of the Credit Union.
2. To act as secretary at General Meetings, Board Meetings, Executive Meetings and at any meeting as far as his/her services are required.
3. To conduct the correspondence on behalf of the Credit Union.
4. To act on behalf of the Treasurer of the Union and as far as delegated to receive and pay out money and keep cash on hand, deposit and withdraw money from banks or other financial institutions as well investing surplus funds.
5. To keep accurate accounts and records and have charge of the documents of the Credit Union as may be recommended by the Board of Directors.

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6. Prepare a monthly financial statement in a timely and efficient manner for the attention of Management Board.
7. To approve loan and withdrawal request at the agreed limit.
8. To advice Management Board on financial and other matters.
9. To carry out such duties that may be lawfully assigned to him or her by the Management Board (UGCU, 2015).

The Deputy (Finance and Accounts)

1. Maintain proper books of accounts for the Union's financial operations.
2. Maintain database of members and regularly update all accounts.
3. Prepare periodic bank reconciliation.
4. Prepare monthly performance report for Board Meeting.
5. Prepare annual accounts for audit purposes.
6. Work closely with the Manager and the Board to maintain the Union's investment portfolio.
7. Prepare returns and make payment for all statutory obligations.
8. Prepare cash forecast/cash flow to guide decision making.
9. Prepare monthly CUA statistical report and Bank of Ghana half year reports.
10. Monitor and advice Management on the performance of the Union's investment portfolios.
11. Keep custody of all value books.
12. Payroll administration.
13. Any other duties assigned by Management (UGCU, 2015).

The Deputy (Operations)

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1. Ensure timely receipt of members' contribution and report any delays and defaults to the Manager.
2. Reconciliation of remittances and members contribution.
3. Advice the Board and implement the Board's decision on loan qualification criteria.
4. Ensure that loan applications are processed within the specified period without compromising loan approval and processing procedures.
5. File and keep proper custody of loan, withdrawal, and remittance advice.
6. Manage the office imprest.
7. Register new members and create a file for each of them.
8. Prepare monthly delinquency report for management's consideration.
9. Coordinate the daily routine activities of the office.
10. Any other duties assigned by the Manager (UGCU, 2015).

<u>The Deputy (Marketing and Member Care Manager)</u>

1. Promote membership drive.
2. Attend education committee meeting and implement the decisions of the committee.
3. Help develop and market new products and services.
4. Review existing products and services with the aim of improving quality.
5. Serve as the interface between the Union and members and the general public.
6. Be part of the assessment team of informal sector loan application forms.
7. Prepare monthly delinquency report on the informal sector for management's consideration.
8. Ensure timely receipt of informal members' contributions and loan repayments, report any delays, and defaults to the Manager.
9. Strategize and implement debt collections activities in line with the Union's policies.

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10. Coordinate all marketing and member care activities of the Union to it formal or informal.
11. Any other duties assigned by Manager (UGCU, 2015).

Marketing and Member Care Manager

1. Assist the Deputy Marketing Manager to promote membership drive.
2. Attend education committee and implement the decisions of the education committee.
3. Help develop and market new products and services.
4. Review existing products and services with the aim of improving quality.
5. Serve as the interface between the Union and members and the general public.
6. Any other duties assigned by Manager (UGCU, 2015).

Accounts/Operations officer

1. Disbursement of cheques.
2. Keep custody of processed cheques.
3. Ensure timely receipt of members contribution and report any delays and default to the Manager.
4. Reconciliation of remittances and members contribution.
5. Implement the Board’s decision on loan qualification criteria.
6. Ensure that loan applications are processed within the specified period without compromising loan approval and processing procedures.
7. File and keep proper custody of loan, withdrawal, and remittance advice.
8. Register new members and create a file for each of them.
9. Member accounts reconciliation.
10. Answer member queries.
11. Any other duties assigned by Management (UGCU, 2015).

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Topical issues on corporate governance

There is a plethora of definitions of corporate governance in the literature. Each definition lays emphasis on particular issues given the theoretical disposition of the author. Majority of the definitions are based on the agency, stakeholder and stewardship theories. Some of these definitions are presented below.

From a finance perspective, corporate governance deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment. (Shleifer & Vishny, 1997). Also, according to Denis and McConnell (2003), corporate governance as the set of mechanisms both institutional and market-based that induce the self-interested controllers of a company (those that make decisions regarding how the company will be operated) to make decisions that maximize the value of the company to its owners (the suppliers of capital). Corporate governance can also be defined as the means by which minority shareholders are protected from expropriation by managers or controlling shareholders (Mitton, 2002).

Corporate governance describes the structure of rights and responsibilities among the parties that have a stake in a firm (Aguilera & Jackson, 2003). According to the OECD (2004), corporate governance is a set of relationships between a company's management, its board, its shareholders and other stakeholders. It also provides the structure through which the objective and monitoring of performance are determined.

From the perspective of the Chartered Institute of Management Accountants (CIMA), it is the:

> System by which companies and other entities are directed and controlled. The boards of directors are responsible for the governance of their companies and other entities. The shareholders' role in governance is to appoint the directors and the auditors, and to satisfy themselves that an appropriate governance structure is in

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place. The responsibilities of the board include setting the company's (or entity's) strategic aims, providing the leadership to put them into effect, supervising the management of the company (or entity) and reporting to shareholders on their stewardship. The board's actions are subject to laws, regulations and the shareholders in general meeting". (CIMA, 2005)

Fundamental and ethics theories of corporate governance

Corporate governance has evolved over the years and emphasis has been placed on different aspects of corporate governance depending on the theory being applied by researchers or social scientists. According to Abdullah and Valentine (2009), some of the fundamental and ethics theories that have shaped corporate governance are:

Agency theory: Agency theory is defined as "the relationship between the principals, (such as shareholders) and agents (such as the company executives and managers)". In this theory, shareholders who are the owners or principals of the company, hires the agents to perform work. Principals delegate the running of business to the directors or managers, who are the shareholder's agents (Clarke, 2004 cited in Abdullah & Valentine, 2009). According to Daily, Dalton and Canella (2003), two factors can influence the prominence of agency theory. First, the theory is conceptually a simple theory that reduces the corporation to two participants (managers and shareholders). Second, agency theory suggests that employees or managers in organisations can be self-interested. In agency theory, shareholders expect the agents to act and make decisions in the principal's interest. On the contrary, the agent may not necessarily make decisions in the best interests of the principals (Padilla, 2000 cited in Abdullah & Valentine, 2009).

In agency theory, the agent may succumb to self-interest, opportunistic behaviour and falling short of congruence between the aspirations of the principal and the agent's pursuits. Indeed, agency theory can be employed to explore the relationship between the ownership

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and management structure. However, where there is a separation, the agency model can be applied to align the goals of the management with that of the owners. This theory prescribes that people or employees are held accountable in their tasks and responsibilities. Employees must constitute a good governance structure rather than just providing the need of shareholders, which maybe challenging the governance structure (Abdullah & Valentine, 2009).

Stewardship theory: Stewardship theory is defined by Davis, Schoorman & Donaldson (1997) as "a steward protects and maximises shareholders wealth through firm performance, because by so doing, the steward's utility functions are maximised". In this perspective, stewards are company executives and managers working for the shareholders, protects and make profits for the shareholders. Unlike agency theory, stewardship theory stresses not on the perspective of individualism (Donaldson & Davis, 1991 cited in Abdullah & Valentine, 2009), but rather on the role of top management being as stewards, integrating their goals as part of the organisation.

The stewardship perspective suggests that stewards are satisfied and motivated when organisational success is attained. Stewardship theory recognises the importance of structures that empower the steward and offers maximum autonomy built on trust (Donaldson and Davis, 1991 cited in Abdullah & Valentine, 2009). It stresses on the position of employees or executives to act more autonomously so that the shareholders' returns are maximised. This can minimise the costs aimed at monitoring and controlling behaviours (Davis, Schoorman & Donaldson, 1997 cited in Abdullah & Valentine, 2009).

On the other end, Daily et al. (2003) contend that in order to protect their reputations as decision makers in organisations, executives and directors are inclined to operate the firm to maximise financial performance as well as shareholders' profits. In this sense, it is believed that the firm's performance can directly impact perceptions of their individual

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performance. Moreover, stewardship theory suggests unifying the role of the CEO and the chairman so as to reduce agency costs and to have greater role as stewards in the organisation. It was empirically found that returns have improved by having both these theories combined rather than separated (Donaldson and Davis, 1991 cited in Abdullah & Valentine, 2009).

Stakeholder theory: Stakeholder can be defined as "any group or individual who can affect or is affected by the achievement of the organisation's objectives". Wheeler, Colbert and Freeman (2002) argued that stakeholder theory is derived from a combination of the sociological and organisational disciplines. Stakeholder theory is less of a formal unified theory and more of a broad research tradition, incorporating philosophy, ethics, political theory, economics, law and organisational science.

Unlike agency theory in which the managers are working for and serving the stakeholders, stakeholder theorists suggest that managers in organisations have a network of relationships to serve. This network of relationships include the suppliers, employees and business partners. The emphasis of the stakeholder theory is that this other network of relationships is equally important as the owner-manager-employee relationship as in agency theory (Freeman, 1999 cited in Abdullah & Valentine, 2009).

Resource dependency theory: Resource dependency theory concentrates on the role of board of directors in providing access to resources needed by the firm. Hillman, Canella and Paetzold (2000) contend that resource dependency theory focuses on the role that directors play in providing or securing essential resources to an organisation through their linkages to the external environment. The provision of resources enhances organisational functioning, firm's performance and its survival (Daily et al, 2003 cited in Abdullah & Valentine, 2009).

According to Hillman, Canella and Paetzold (2000), directors bring resources to the firm, such as information, skills, access to key constituents such as suppliers, buyers, public

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policy makers, social groups as well as legitimacy. Directors can be classified into four categories of insiders, business experts, support specialists and community influential.

First, the insiders are current and former executives of the firm and they provide expertise in specific areas such as finance and law on the firm itself as well as general strategy and direction. Second, the business experts are current, former senior executives and directors of other large for-profit firms and they provide expertise on business strategy, decision making and problem solving. Third, the support specialists are the lawyers, bankers, insurance company representatives and public relations experts and these specialists provide support in their individual specialised field. Finally, the community influential are the political leaders, university faculty, members of clergy, leaders of social or community organisations.

Transaction cost theory: Transaction cost theory attempts to view the firm as an organisation comprising people with different views and objectives. Transaction cost theory is an interdisciplinary alliance of law, economics and organisations. The underlying assumption of transaction cost theory is that firms have become so large they in effect substitute for the market in determining the allocation of resources. In other words, the organisation and structure of a firm can determine price and production. The unit of analysis in transaction cost theory is the transaction. Therefore, the combination of people with transaction suggests that transaction cost theory managers are opportunists and arrange firms' transactions to their interests (Williamson, 1996 cited in Abdullah & Valentine, 2009).

There are other ethics theories that can be closely associated to corporate governance. Ethics is defined as the study of morality and the application of reason which sheds light on rules and principles, which is called ethical theories that ascertains the right and wrong for a situation (Abdullah & Valentine, 2009). These theories include; business ethics theory, virtue

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ethics theory, feminist ethics theory, discourse ethics theory, postmodern ethics theory (Abdullah & Valentine, 2009).

1. Business ethics is a study of business activities, decisions and situations where the "right and wrongs" in business are addressed. The main reasons for this are the power and influence of business in any given society is stronger than ever before. Businesses have become a major provider to the society, in terms of jobs, products and services. Business collapse has a greater impact on society than ever before and the demands placed by the firm's stakeholders are more complex and challenging. Business ethics helps us to identify benefits and problems associated with ethical issues within the firm and business ethics is important as it gives us a new light into present and traditional view of ethics (Crane & Matten, 2007 cited in Abdullah & Valentine, 2009).
2. Feminist ethics theory emphasizes on empathy, healthy social relationship, and the avoidance of harm. In an organisation, to care for one another is a social concern and not merely a profit centred motive (Abdullah & Valentine, 2009).
3. Discourse ethics theory is concerned with peaceful settlement of conflicts. Discourse ethics, also called argumentation ethics, refers to a type of argument that tries to establish ethical truths by investigating the presuppositions of discourse (Habermas, 1996). This kind of settlement would promote cultural rationality and cultivate openness (Meisenbach, 2006 cited in Abdullah & Valentine, 2009).
4. Virtue ethics theory focuses on moral excellence, goodness, chastity and good character. Virtue is a state to act in a given situation. It is not a habit as a habit can be mindless (Annas, 2003 cited in Abdullah & Valentine, 2009). Virtue ethics is eminent to bring about the intangibles into an organisation. Virtue ethics highlights the

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virtuous character towards developing a morally positive behaviour (Crane & Matten, 2007 cited in Abdullah & Valentine, 2009).

5. Postmodern ethics theory goes beyond the facial value of morality and addresses the inner feelings and 'gut feelings' of a situation. It provides a more holistic approach in which firms may make goals achievement as their priority, foregoing or having a minimal focus on values, hence having a long term detrimental effect (Abdullah & Valentine, 2009).

Components of corporate governance

According to the Chartered Institute of Management Accountants (CIMA) (2008), there are four components of corporate governance in practice. These are:

1. Boards of directors
    a. The role of the board.
    b. Frequency of meetings.
    c. Whether the role of chairman and chief executive should be split.
    d. The overall size of the board.
    e. The balance of the board between non-executive and executive directors.
    f. The proportion of non-executive directors who should be independent.
    g. Procedures for board appointments and re-election, including nominations committees.
    h. Evaluation of board performance.
2. Executive remuneration
    a. Remuneration policy, contracts and compensation.
    b. Procedures for determining remuneration, including remuneration committees.
3. Financial reporting and internal control
    a. The board's responsibility for presenting information to shareholders.

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   b. Maintenance of a sound system of internal control.
   c. The need for an audit committee or equivalent and its role.

4. Shareholder relations
   a. Responsibility for maintaining dialogue with shareholders.
   b. The use of the Annual General Meeting.
   c. Responsibilities of institutional/major shareholders.
   d. Rights of minority shareholders.

The approach adopted by a particular country is influenced by factors including corporate, cultural and legal traditions. The unitary board is the norm in the UK and the USA. In these countries, a significant proportion of shares are held by large institutions. However, in some European countries, such as Germany, the two tier board is common. In France and Germany, the ownership structures tend to be more characterized by powerful, controlling shareholders. In such cases, the question of minority shareholder rights is a major issue and therefore a management board and a supervisory board that advices and supervises the management. The supervisory board is composed of different stakeholders (Charkham, 2005).

Corporate governance dilemma

Managers of corporations are always concerned about cost associated with the adoption of various interventions. The adoption of corporate governance presents an economic and legal dilemma to them. There is always the cost-benefit analysis to make. In a legal and regulatory environment where more transparency is demanded of managers of both private and public funds, compliance to corporate governance standards are non-negotiable. Compliance incurs cost because regulators do not only expect you to comply, they expect you to show prove of compliance. Preparing extensive financial reports is time consuming and require a great deal of money to prepare. The services of independent audit firms are

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expensive. Legal fees and consulting fees in relation to complying with regulatory standards are also high. Internal compliance and monitoring mechanisms may also entail high start-up costs (Tafara and Peterson, n.d.)

Whiles the cost associated with corporate governance compliance can easily be apportioned and computed, the benefits of corporate governance are more complex. Some of the benefits of corporate governance are; increased attractiveness to potential customers, employees, lower cost of capital, detection and preferably prevention of breaches of internal controls (Renes, 2008). Comparing these benefits to their associated cost can discourage managers from fully implementing good corporate governance systems if the associated costs are greater than the benefits. According to Durden and Pech (2006):

> The issue of increasing and stricter compliance for business is far-reaching. Attempting to protect shareholder interests through further measures of compliance will only introduce further operating complexities for management while increasing costs and reducing decision speeds and flexibility. The impact on firms forced to compete under such conditions will be considerable, particularly if they find themselves on an international landscape competing against firms not burdened with the same regulatory requirements.

Three (3)-part system of governance for credit unions

Credit unions occupy a unique position in the financial sector. Unlike for-profit financial institutions that have the primary goal of making profit for their owners, the members of credit unions serve as both the owners and recipients of the services rendered by the unions. Therefore, when a credit union maximises its profits, it results in higher dividends for members, lower interest rates on loans and lower service fees. As a result of this unique characteristic of the credit union, the WOCCU has developed the International Credit Union

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Governance Principles to create a governance model that more appropriately addresses the structure and mission of credit unions.

This governance model is a three-part model of external, internal and individual governance that addresses the broad spectrum of duties and responsibilities needed to efficiently and effectively operate a credit union. This code of governance is meant to serve as a general guide rather than mandatory requirements given the inherent differences among credit unions due to geographic location, size, services and member needs. These principles are to help the individual unions bring affordable, quality financial services to its members. The principles are presented below:

External governance focuses on issues of credit unions and their external environment. All financial institutions, regardless of structure and type, are expected to conduct their business in a transparent manner, comply with domestic laws and regulatory standards and be held accountable to the public. The board of the credit union is responsible for leading this drive.

Internal governance defines the responsibilities and accountability of the general assembly, the board of directors, management and the staff. These responsibilities include achieving an appropriate governing structure of the credit union, preserving the continuity of future credit union operations, creating balance (reflect the demographic makeup of members) within the organization and remaining accountable for their actions.

Individual governance, it perhaps the most critical of the three principles. Without individual governance, the external and internal governance will be difficult to attain. Individual governance ensures that the members holding position in the unions are individuals with integrity, competence and commitment.

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Similarities between credit unions and banks

Credit unions and banks can all be grouped as financial institutions that provide financial services to their customers. The governance systems of credit unions and banks include; ownership, boards of directors, CEOs, and audit committees or supervisory committees. The national and sector regulators define the scope of their operations, and conduct and monitor different safety and soundness systems utilised by these two institutions.

Differences between credit unions and banks

Credit unions and banks conduct themselves differently in the marketplace (Hoel, 2011).

1. Credit unions behave more conservatively than banks. Credit unions tend to avoid excessive risk taking, and they favour high levels of capital.
2. Credit unions offer more attractive prices on consumer loans, savings products, and transaction services than banks. On average, credit unions offer their customers better savings and loan rates than banks. According to Schenk (2009) (cited in Hoel, 2011), data from CUNA show that credit unions are less likely to charge fees for services. However, when they do, their fees charged tend to be lower than fees charged by banking institution for the provision of similar services.
3. Banks, more than credit unions, focus on short-term quarterly financial performance. Due to the high returns expected by investors and owners of banks, managers of banks tend to focus on short term returns. Stock markets are demanding task masters for banks, and quarterly financial performance is a major determinant of stock valuation. This can lead to publicly traded firms deploying short sighted, suboptimal tactics to boost income for the next quarter. Because credit unions are not listed on stock exchanges, they do not need to obsess about quarterly net income fluctuations.
4. Majority of the customers of banks are not owners whiles majority of the customers of credit unions are also the owners.

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The behavioural implications of bank and credit union differences is presented in Table 2.3 below

Table 2.3 Behavioural implications of bank and credit union differences

GOVERNANCE PARTICIPANT	BANK-CREDIT UNION DIFFERENCE	BEHAVIOURAL IMPLICATIONS
OWNERS	Banks are owned by stockholders who have transferable ownership equity—one vote per share Credit unions are owned by member-users who do not have transferable ownership—one vote per member	Banks focus on enhancing shareholder value, including dividend payments Credit unions reward member-users (owners) through favourable loan and savings rates, low fees, and good customer service
CEOS	Bank CEO incentives, including stock options, are designed to encourage enhancement of shareholder value Credit union CEOs do not receive stock options; they receive fewer incentive payments for exceptional profitability	Banks favour stockholders over customers Credit unions favour customers (member-owners); they are less likely to take large risks
BOARDS OF DIRECTORS	Bank board members are compensated and usually have significant business and managerial experience Credit union boards are uncompensated and generally less sophisticated on business issues	Banks take greater risks; business and incentive goals are better defined; boards offer better business advice Credit union CEOs are more likely to dominate their boards; unsophisticated credit union boards may be tempted to micromanage their CEOs and credit unions
REGULATORS	Bank activities are primarily regulated by the Federal Reserve, the Department of the Treasury, and the Federal Deposit Insurance Corporation; state bank regulators supervise state-chartered banks	Bank regulators tend to be more sophisticated in a wider range of banking product areas

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	Credit unions are primarily regulated by the NCUA; state credit union regulators supervise state-chartered credit unions	Credit union regulators have narrower focus and are less tolerant of risk taking outside traditional consumer finance products
CONGRESS	Credit unions are permitted to serve only "well-defined" fields of membership; by law, credit unions have limited authority to make business loans and are not allowed to engage in a wide range of other banking activities that banks engage in Credit union capital requirements are hardwired into statutes, and only net worth qualifies as capital; secondary capital is generally not allowed Banks have more freedom to pursue non-consumer business opportunities and obtain capital Credit unions are exempt from income taxation; banks are not	Credit unions satisfy only a portion of the banking needs in their communities Credit unions take fewer risks because they can replace capital only through growth of retained earnings Individual banks can grow faster because of greater banking powers and better access to new capital Income tax exemption helps credit unions recover faster from loss of capital than if they were taxed—this is especially important because of their inability to issue stock and obtain secondary capital; banks can replace capital through non-income methods

Source: Hoel, (2011)

Power and owner involvement in credit unions

Power in this context refers to any individual or group of individuals who have the greatest influence on the direction and vision of the credit union. According to Hoel (2011), one distinct feature of successful credit unions is, during their early growth stage, many credit union members directly participate in the governance process of the credit union. They attend annual meetings and actively participate on committees.

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However, this early active participation and involvement progressively declines as the credit union matures. Most credit union members become passive or inactive members. They no longer perceive a need to devote time and effort to ensure the success of the union. The credit union members are much more interested in the benefits of ownership than in participation in the governance process (Hoel, 2011).

When the vacuum is created by the passive nature of the union members, other participants (ie. Boards of directors, CEOs, managers, etc) grow in stature, influence and power. Consequently, boards of directors become more powerful than members, and serious principal-agent problems may occur (Hoel, 2011). The CEO or manager equally becomes powerful and there is the potential for the CEO to dominate the board.

Another key actor in the governance process of credit union is the regulator. Every organisation or institution works in a legal and regulatory framework. The decisions taken by owners, boards of directors, CEOs are influenced by the available regulatory framework. Thus, the centre of power in the credit union is not just about the owners of the union. Therefore, the situation as exits in theory and reality of who controls and has the greater power do not converge.

In theory, the owners have the greater power and influence over the union but the reality is that CEO in credit unions tends to be the most powerful actor in the governance process, and the state regulators are typically second in the power rankings. In situations where there credit union is going through some financial challenges or there are compliance issues, the regulators often step to the fore to protect the deposit insurance fund from losses, shield the broader credit union system from paying for insurance losses, and safeguard regulators' professional reputations and jobs as government employees. In this situations, the regulator controls the centre of power. Though credit union member become passive as the credit union grows, the members retain some sense of ownership of the union (Hoel, 2011).

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Credit union risk and risk categories

Risk is inevitable in the operations of a credit union. The focus of managers of the union should not be to eliminate the risk but their focus should be on ensuring that the risk is identified and managed appropriately. The desired reward for taking risk is stable profitability and increased net worth. Credit unions must balance risk and reward responsibly (NCUA, n.d). Thus, it is crucial that credit unions have place a risk management program that includes a strategic plan with implementing policies, procedures, and internal controls necessary to manage the risks inherent in their operations. Successful risk management programs rely on credit union management to employ sufficient staff and have available necessary resources to identify, measure, monitor, and control existing and potential risks (NCUA, n.d).

According to the National Credit Union Administration (NCUA), risk can be define as the potential that events, expected or unanticipated, may have an adverse effect on the credit union's net worth and earnings. Risk implies uncertainty. The common risk that confront credit unions can be categorised into seven. These are Credit, Interest Rate, Liquidity, Transaction, Compliance, Strategic, and Reputation. Any product or service may expose the credit union to multiple risks. Thus, these categories are not mutually exclusive (NCUA, n.d). The seven categories of risk are explained below.

1. *Credit Risk* is the current and prospective risk to earnings or capital arising from an obligor's failure to meet terms of any contract with the credit union or otherwise fail to perform as agreed. Credit risk exists in all activities where the credit union invests or loans funds with the expectation of repayment.
2. *Interest Rate Risk* is the risk that changes in market rates will adversely affect a credit union's capital and earnings. Interest rate risk arises from (i) differences between the timing of rate changes and the timing of cash flows (repricing risk); (ii) changing rate

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relationships among different yield curves affecting credit union activities (basis risk); (iii) changing rate relationships across the spectrum of maturities (yield curve risk); and (iv) interest-related options embedded in credit union products (options risk). Not only can a move in interest rates affect the price of investments, it also has an effect on the value of the loan portfolio and on fee income, which is sensitive to changes in interest rates. The assessment of interest rate risk should consider risk from both an accounting perspective (i.e., the effect on the credit union's accrual earnings, including held-to-maturity and available-for-sale accounts) and the economic perspective (i.e., the effect on the market value of the credit union's loans and investments).

3. *Liquidity Risk* is the current and prospective risk to earnings or capital arising from a credit union's inability to meet its obligations when they come due, without incurring material costs or unacceptable losses. Liquidity risk includes the inability to manage funding sources, including unplanned decreases or changes. Liquidity risk also arises from the credit union's failure to recognize or address changes in market conditions that affect the ability to liquidate assets quickly and with minimal loss in value.
4. *Transaction Risk* is the risk to earnings or capital arising from fraud or error that results in an inability to deliver products or services, maintain a competitive position, and manage information. This risk (also referred to as operating or fraud risk) is a function of internal controls, information systems, employee integrity, and operating processes. This risk arises on a daily basis in all credit unions as they process transactions.
5. *Compliance Risk* is the current and prospective risk to earnings or capital arising from violations of, or non-conformance with, laws, rules, regulations, prescribed practices, internal policies and procedures, or ethical standards. Compliance risk may also arise

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in situations where ambiguous or untested laws or rules govern certain credit union products or activities of the members. Compliance risk exposes the credit union to fines, civil money penalties, payment of damages, and the voiding of contracts. Compliance risk can lead to a diminished reputation, limited opportunities, reduced field of membership expansion potential, and lack of contract enforceability. Compliance risk goes beyond a failure to comply with consumer protection laws. It encompasses all laws as well as prudent ethical standards, contractual obligations, and exposure to litigation. Compliance risk can blend into operational risk, transaction processing, and even legal risk, increasing the difficulty of identifying this risk.

6. *Strategic Risk* is the current and prospective risk to earnings or capital arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes. This risk is a function of the compatibility of a credit union's strategic goals, the business strategies developed to achieve those goals, the resources deployed to accomplish these goals, and the quality of implementation. The tangible and intangible resources needed to carry out business strategies include communication channels, operating systems, delivery networks, monitoring systems, and managerial capacities and capabilities.
7. *Reputation Risk* is the current and prospective risk to earnings or capital arising from negative public opinion or perception. Reputation risk affects the credit union's ability to establish new relationships or services, or to continue servicing existing relationships. This risk, which occurs in activities such as asset management decisions and transactions, can expose the credit union to litigation, financial loss, or a decline in membership base. Reputation risk exposure appears throughout the credit union organization. The officials, management, and staff must accept responsibility to

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exercise an abundance of caution in dealing with members and the community (NCUA, n.d).

Credit union risk management

For a credit union to effectively manage risk will depend largely on management. The board of directors should be well informed and knowledgeable in the regulatory framework within which it operates and market conditions prevailing to enable it provide, shape and guide the credit union's strategic direction including its risk tolerance (NCUA, n.d). The board's written policies will define the board's strategic direction and the procedures outlined in those policy documents coupled with well-designed monitoring systems will enable the board to hold management accountable for operating within established tolerance levels.

Effective risk management also requires the human resource base of the union to be strong. The staff employed to manage the operations of the union must equally be capable as the management and the board of directors. Management's responsibilities include the implementing the board's strategic direction, developing formal and informal policies compatible with the strategic goals defining the credit union's risk tolerance, overseeing development and maintenance of timely, accurate, and informative management information systems; and ensuring effective communication of, and adherence to, strategic direction and risk tolerances throughout the organization (NCUA, n.d).

Regardless of the risk management program's design, each should include:

1. *Risk identification:* Proper risk identification focuses on recognizing and understanding existing risks or risks that may arise from new business initiatives. Risk identification should be a continuous process, and should occur at both the micro (transaction) and macro (overall portfolio) levels.
2. *Risk measurement:* Accurate and timely measurement of risks is a critical component of effective risk management. A credit union with no risk measurement capabilities

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has limited ability to monitor or control risk levels. Further, the sophistication of the risk measurement tools should reflect the complexity of the operation and levels of risk assumed. The credit union should periodically verify the integrity of the measurement tools it uses. Good risk measurement systems assess both individual transactions and overall portfolios.

3. *Risk control*: The credit union should establish and communicate control limits through policies, standards, and procedures that define responsibility and authority. The credit union should adjust these management tools if conditions or risk tolerances change. Further, the credit union should implement a process to authorize exceptions or changes to risk limits, if warranted.
4. *Risk monitoring*: Credit unions should monitor risk levels regularly to ensure well-timed reviews of risk positions and exceptions. Prompt distribution of frequent, accurate, and informative monitoring reports to appropriate management and staff enables them to take needed actions (NCUA, n.d).

Empirical studies on credit unions and corporate governance

Mitton (2002), studied 398 firms from Indonesia, Korea, Malaysia, the Philippines, and Thailand. His findings showed that firm-level differences in variables related to corporate governance had a strong impact on firm performance during the East Asian financial crisis of 1997–1998. Companies that offered higher disclosure quality, greater transparency, a more favourable ownership structure, and a more focused organisation appear to have provided greater protection to their minority shareholders during the East Asian financial crisis. The results suggest that individual firms have some power to preclude expropriation of minority shareholders if legal protection is inadequate. Mitton recommends that countries should build a strong institutional foundation before opening up to foreign capital flows.

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More research is needed on corporate governance in Africa. There has been limited published research on corporate governance in Africa and even less rigorous academic or empirical research. There are several challenges confronting the implementation of improve corporate governance in Africa. The adoption of corporate governance principles by African countries will be a giant step towards creating safeguards against corruption and bribery, and mismanagement, promoting transparency in economic life and attracting more domestic and foreign investment. Good corporate governance is also capable of protecting shareholder value in Africa. (Okeahalam & Akinboade, 2003).

Jones (2006), in a study "Giving credit where it's due: promoting financial inclusion through quality credit unions" in the UK found out that given the requisite organisational capacity, credit unions are best placed within the financial services industry, to serve those on low incomes. This finding is consistent with other studies (Conaty& Bendle, 2002; Whyley & Brooker, 2004; Regan & Paxton, 2003). The study also established that during the 1980s and early 1990s, the UK's public investment in credit unions was misdirected. This resulted in community credit unions remaining small and having only marginal impact within financially excluded communities. However, since 1999, significant transformation has taken place in the credit union sector, which has resulted in credit unions developing as market-oriented and commercial social enterprises with a capacity to tackle financial exclusion both imaginatively and effectively at a borough wide, city-wide and sometimes county wide level.

Using a framework for evaluating corporate governance developed by Standard and Poor's, Ashbaugh-Skaife, Collins and LaFond (2005), investigated whether firms that exhibit strong governance benefit from higher credit ratings relative to firms with weaker governance. The results indicate that firm credit ratings are negatively associated with the number of blockholders that own at least a 5 percent ownership in the firm; positively related to weaker shareholder rights in terms of takeover defences; positively related to accrual

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quality and earnings timeliness; and positively related to over-all board independence, board stock ownership and board expertise, and negatively related to CEO power on the board. They also found out that CEOs of firms with speculative grade credit ratings are overcompensated to a greater degree than their counterparts at firms with investment grade ratings, and that the overcompensation exceeds the CEO’s share of additional debt costs related to lower credit ratings.

Based on data from conveniently sampled 52 microfinance institutions in Ghana, Kyereboah-Coleman and Osei (2008) found out that governance plays a critical role in the performance of MFIs and that the independence of the board and a clear separation of the positions of a CEO and board chairperson have a positive correlation with both profitability and outreach stressing the importance of the two-tier board structure in firm performance. The study however obtained inconclusive results regarding CEOs tenure, board competence and microfinance institution size. This the study attributed to multi-dimensional objectives organisations pursue at different times.

Another study by Mersland and Strom (2007), studies the effect of corporate governance in microfinance institutions (MFIs). They constructed a dataset on microfinance institutions based on rating reports spanning four years to study how various internal and external governance mechanism influence different dimensions of financial performance and outreach. The results show that split roles of CEO and chairman, a female CEO, and competition had significant impact on financial performance and outreach. Group lending does not contribute positively to financial performance, but to outreach. Thus, if the MFI wants to reach the poorer fractions of the population it should stick to group lending. However, its financial sustainability will be negatively affected. Financial performance and outreach are competing objectives. Return-on-asset increases with average loan size. They found that there is no "win-win" logic between poverty outreach and financial performance.

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Yusoff and Alhaji (2002), reviewed literature on the variety of theories in corporate governance. They identified that the ultimate theories in corporate governance started with the agency theory, extended into stewardship theory and stakeholder theory and evolved to resource dependency theory, political theory, legitimacy theory and social contract theory. These theories resulted in corporate governance variables such as formation of board structure, audit committee, independent non-executive directors and the duties of upper management and their organizational and social responsibilities rather than its regulatory structures. They propose that, a mixture of various theories is best to describe an effective and efficient good governance practice rather than hypothesizing corporate governance based on a sole theory.

Agyemang, Aboagye and Ahali (2013), examined the legal and regulatory framework of Ghana in regards to corporate governance and points out the importance of complying with good corporate governance. They concluded that Ghana can make a headway in its corporate governance issues if it enforces existing laws and regulations. They identified that although Ghana has sufficient laws and regulations with respect to corporate governance, the major challenge is the absence of active devices for their effective enforcement. Also, protection of minority equity holders, employee representation on boards and reforming annual general meetings by allowing minority shareholders to express their views will all entrench the corporate governance culture in Ghana.

The 2010 Code of best practices for corporate governance issued by the Securities and Exchange Commission of Ghana is reviewed by Agyemang and Castellini (2013). They first examined key properties of the code, the main deficiencies and other unqualified derelictions, substandard provisions in the code. Their review revealed that the 2010 SEC Code of best practices of Ghana has the propensity to positively influence corporate governance practice in Ghana. This is because of its extensiveness, comprehensiveness and its compliance with the

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best practices across the globe. However, compared to other codes around the globe, the code still lags behind in several areas. Among the identified deficiencies are the absence of the roles and responsibilities non-executive directors are to perform, and gender diversity issues. It recommends that board risk committees be established who will report directly to the non-executive directors.

Makki and Lodhi (2013) studied the structural relationship between corporate governance and financial performance. The study develops a model linking corporate governance and financial performance then verifies it through structural equation modelling based on partial least square. Data related to corporate governance and financial performance was collected through annual reports of listed companies on the Karachi Stock Exchange. The study concludes that corporate governance does not improve financial performance consistently. Rather it proposes that corporate governors can enhance it significantly through exploiting intangible resources.

Mwanja, Marangu, Wanjere and Thuo (2014) examined the effect of corporate governance on performance of savings and credit co-operative societies (SACCOs) in Kakamega County in Kenya. Corporate governance was operationalized by transparency and accountability, shareholder involvement, policies and guidelines, and rewards and incentives while performance of SACCOs was characterized by growth in share capital/deposits, growth in membership, growth in turnover, and customer satisfaction. The study found that corporate governance had a significant positive effect on performance of SACCOs. Recommendations from this study included the need for all SACCOs to embrace corporate governance since it enhances performance.

Corporate governance does not always impact positively on the organisation. As observed by Durden and Pech (2006), the issue of increasing and stricter compliance for business is far-reaching. Attempting to protect shareholder interests through further measures

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of compliance will only introduce further operating complexities for management while increasing costs and reducing decision speeds and flexibility. The impact on firms forced to compete under such conditions will be considerable, particularly if they find themselves on an international landscape competing against firms not burdened with the same regulatory requirements.

Good corporate governance increases return-on-capital of organisations that practice it. In the aftermath of the financial crisis of 2007/2008, U.S. banks with strong corporate governance practices had substantially higher stock returns after the market meltdown, indicating that good governance may have mitigated the adverse influence of the crisis on bank credibility. However, there were also some downsides. The findings also indicate that strong governance may have had negative effects on stock market valuations of banks amidst the crisis. Also, good corporate governance did not create shareholder value in the banking industry during the market meltdown (Peni & Vahamaa, 2012).

Haider, Khan and Iqbal (2015), examined the influence and relationship between corporate governance practices and firm financial performance in Islamic banking sector. Main purpose of this study is to find or identify various factors or variables that affects the firm financial performance. They analysed three components of corporate governance. Namely; board size, number of meeting and audit committee size. They also measured financial performance on the bases of return-on-equity, return on asset and earning per share. The results reveals a positive relationship between corporate governance and financial performance of Islamic banking sectors. Specifically, large board size had considerable and strong positive relationship firm financial performance.

In summary, the cost of corporate governance and compliance is significant. Appropriate technology is an important element to contain the costs. However, evolving legislative requirements, emerging technologies and unfamiliarity of organizations with the

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technology architecture for sustained governance practices have caused a lot of uncertainty within organisations regarding the value and role of IT governance. Organizations need to define the long-term functional and technology vision to support governance practices (Jamal & Jansen, 2006).

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CHAPTER THREE

METHODOLOGY

Introduction

This chapter presents the methodology used in the study. Specifically, the chapter is divided into four parts. The first part presents the research design. It describes the type of study and the framework within which the study was done. The second part presents the sources of data and method of data collection. The third part presents the data analysis. The data analysis involves the tools used to analyse the data and how the tools were applied to the data. The final part presents the method of analysis. This entails how the different objectives of the study were analysed using specific instruments.

Research design

The study is descriptive in nature. A case study research approach was used in this study. A case study is an empirical inquiry that investigates a contemporary phenomenon within its real life context and offers the researcher the opportunity to understand the complexity and context of behaviour in other to contribute to action and intervention (Yin, 2003).

Using data from the financial reports and the organisational structure of the University of Ghana credit union and indicators of best practices of good corporate governance, a comparative analysis was carried out. The indicators of good corporate governance suggested by institutions such as the World Council of Credit Unions (WOCCU), Chartered Institute of Management Accountants (CIMA) and the Generally Accepted Accounting Principles (GAAP) are used as the bench mark.

Microsoft Excel was used in computing the financial ratios to determine the financial performance of the credit union. The computed financial ratios is compared to the financial

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evaluation system (PEARLS) developed by WOCCU. Based on the results of the analysis, conclusion and recommendations will be made.

Source of data and method of data collection

Both primary and secondary data was used in this study. The primary data was cross-sectional data from interviews with the management of the credit union. The secondary data used in the study was from the financial reports of the credit union, information on the corporate governance structure of the organisation and related literature on the subject matter.

In answering the question; what corporate governance systems are in place in the university of Ghana credit union, requires data on the composition of the board of directors, the management board, structure of the board of directors, audit committee, risk management committee, loans committee, accountability and stakeholder engagement. This data was acquired from the constitution (articles of association), bye-laws and other documents on the organogram of the credit union.

To address the question; what are the risk management structures in place within the university of Ghana credit union, data on the composition of the risk management committee, its functions and the competencies of the individuals that constitute the committee are required. This data was gathered from the union's working documents and by-laws.

To answer the question on the financial performance of the University of Ghana credit union, the PEARLS Evaluation System was adopted. The PEARLS Evaluation System require the calculation of different financial ratios. Data for calculating the financial ratios was gathered from audited financial statement of the University of Ghana CU from 2004 to 2014.

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Research method-case study

A case study is an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident. In other words, a case study inquiry deal with the technically distinctive situation in which there will be many more variables of interest than data points. To solve this challenge, the researcher can rely on multiple sources of evidence, with data needing to converge in a triangulating fashion. A case study can also cope with the prior development of theoretical propositions to guide data collection and analysis (Yin, 2003). Under this circumstance, a case study is not either a data collection tactic or merely a design feature alone but a comprehensive research strategy (Stoecker, 1991 cited in Yin, 2003).

The use of case study methodology in a research study, offers the researcher the opportunity to understand the complexity and context of behaviour in order to contribute to action and intervention (Cohen, Manion and Morrison, 2007 cited Bisaso, 2011). In a case study, the object of analysis should to be clearly defined and it should also be in congruent with the primary objectives and rationale of the study (Yin, 1989 cited in Bisaso, 2011). Furthermore, a case study is used when the focus is on an in-depth examination of phenomena situated in a certain context and conducted within specific time frames (Bryman, 2008; Creswell, 1998 cited Bisaso, 2011).

In selecting a case study strategy, the researcher needs to consider what cases and how many cases to choose. Thus you can choose between single case study and multiple case study. Both strategies have their strengths and weakness. Multiple case study is where more than one case study is studied at a time. The results from this approach are considered more compelling and robust (Herriott & Firestone, 1983 cited in Yin, 2009). Multiple cases have the advantage of cross-case comparison because they allow theory to be better grounded in more varied evidence. This is because each case which is properly selected can either (a)

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predict similar results (a literal replication) or (b) predict contrasting results but for anticipatable reasons (a theoretical replication). A comparison can be made between multiple cases and multiple experiments. Under these circumstances, the mode of generalization is analytic generalization, in which a previously developed theory was used as a template with which to compare the empirical results of the case study (Yin, 2009).

According to Yin (2009), there are five justifiable conditions under which the single case design is most appropriate. These are: critical testing of existing theory, a rare or unique circumstance, a representative or typical circumstance, revelatory (previously inaccessible to researchers) or that the study is longitudinal (comparing the case at different points in time). The weaknesses of the single case study include: lack of sufficiency, limited extent of generalisation, and the vulnerability to confirmation bias by the researcher. There are two categories of the single case study design. They are holistic and embedded case design. The holistic design is where the whole entity (organization, phenomenon, event, and person) is a single unit of analysis particularly in situations where subunits cannot be distinctly recognized or when the theory guiding the study is equally holistic. In contrast, an embedded case design is one which has the unit of analysis as the single entity as well as the subunits that comprise it also as individual entities which can be studied on their own.

In this study, the operational definition of a case study is adopted from Seawright and Gerring (2008). They define a case study as: the intensive (qualitative or quantitative) analysis of a single unit or a small number of units (the cases), where the researcher's goal is to understand a larger class of similar units (a population of cases). The University of Ghana CU is one of the leading credit unions in Ghana and a model for other credit unions and thus it meets the criteria of being a typical credit union. Therefore, a holistic single case study is adopted in this study. As an empirical inquiry, a case study thrives on a plurality of sources of

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data such as archival data, documents and interviews hence allowing for triangulation. It also involves multiple methods of data collection (Yin, 2009).

Data analysis

This section presents the methods that was used to address the specific objectives of the study. Objective one was to identify and examine the corporate governance systems in place at the University of Ghana Credit Union. A comparative analysis of the corporate governance practices of the University of Ghana Credit Union and best practices was done. The identified structure of the University of Ghana credit union was compared with best practices and the limitations of the structure used by the credit union was highlighted.

Previous studies (Agrawal & Chadla, 2005; Coyle, 2005; Lees, 2008, Dewji &Miller, 2013; WOCCU,2015(b)) have alluded to the fact that, the board of directors (its composition and role, appointments, performance), executive remuneration, financial reporting and internal control (including mechanisms such as audit committees to ensure that the board fulfils its responsibilities in these areas) and relations with shareholders (shareholder rights and responsibilities) are good indicators of the corporate governance structures and thus corporate governance practices.

Objective two was to examine the risk management structures within the University of Ghana credit union. Objective two was analysed using descriptive analysis. The main parameter of interest is the workings of the risk management committee of the credit union. The composition, functions and duties of the committee was examined. Also, the procedures for loan acquisition and repayment was examined. The rate of loan default and measures put in place by management to minimise it was also examined. The potential risk of the credit union include interest rate risk, credit risk, exchange rate risk and management risk.

Objective three was to examine the financial performance of University of Ghana Credit Union. This objective was achieved using the PEARLS Evaluation System. This

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evaluation system has been adopted by the World Council of Credit Unions, Inc. since 1990 (WOCCU, 2015d) for the operating and management of CUs. A comparative analysis was carried out between the results obtained and the benchmark set by PEARLS to determine the financial performance of the credit union. A trend analysis of the different financial ratios from 2004 to 2014 helped to determine the sustainability of the credit union. The ratios was calculated using Microsoft Excel 2013. The software was also used to produce the appropriate accompanying graphs and pie charts.

PEARLS stands for **P**rotection, **E**ffective financial structure, **A**sset quality, **R**ates of return and cost, **L**iquidity and **S**igns of growth. Each letter of the word "PEARLS" measures key areas of credit union operations. One of the main highlights of PEARLS Evaluation System is its efficiency and effectiveness as a tool for monitoring the progress of CUs. Hence, it can be used to monitor the efficiency and profitability of a CU.

The six basic indicators measure financial performance. Each indicator is a composite of different individual financial ratios. A brief summary of the indicators is presented below. The key to PEARLS is presented in Appendix 1.

P=Protection. Indicators of protection measure the adequacy of the credit union's provision for delinquent loans. Protection is measured by 1) comparing the adequacy of the allowances for loan losses against the amount of delinquent loans and 2) comparing the allowances for investment losses with the total amount of non-regulated investments (Richardson, 2009).

E=Effective financial structure. Effective financial structure measures assets, liabilities and capital and recommends an "ideal" structure for credit unions. This is the most important factor in determining growth potential, earnings capacity and overall financial strength (Richardson, 2009).

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A=Asset quality. Asset quality is a non-productive or non-earnings asset, which does not generate income. An excess of non-productive assets has a negative effect on savings and loans earnings. The individual financial ratios for measuring asset quality are delinquency loan rates, non-earning assets, and the financing of non-earning assets (Richardson, 2009).

R=Rates of return and costs. These are aggregates of all essential net earnings to help management calculate investment yields and evaluate operating costs. The indicators help measure average income yield for each of the most productive assets of the balance sheet. In addition, they measure the average cost yield for each of the most important liability and capital accounts. The results indicate whether the Credit Union is earning and paying entrepreneurial rates on its assets, liabilities and capital (Ofei, 2001).

L = Liquidity: Liquidity indicates whether the credit union is administering its cash so that it can meet deposit withdrawal requests and liquidity reserve requirements, while at the same time, minimizing the amount of idle funds that earn no economic returns (Ofei, 2001). The maintenance of adequate liquidity reserves is essential to sound, financial management (Richardson, 2009)

S = Signs of growth: Growth is measured by the percentage change between current and previous year performances for total assets, loans, deposits, external credit, shares, institutional capital and members. The advantage of the PEARLS system is that it links growth to profitability and also to the other key areas by evaluating the strength of the system as a whole (Richardson, 2009).

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CHAPTER FOUR

RESULTS AND DISCUSSION

Introduction

This chapter presents the results of the study. The results are then discussed and possible explanations provided for the observed results. The chapter is divided into three main parts and each part will present the results of each specific objective and the accompanying discussion.

Corporate governance systems at the University of Ghana credit union

Results

Objective one is to identify the corporate governance systems in place at the University of Ghana Credit Union. According to the amended bye-laws of the University of Ghana Co-operative Credit Union Ltd contained in the 2012/2013 reports and financial statements and depicted in Figure 4.1, the supreme authority of the Union is vested in the members who exercise their powers through voting at annual and special general meetings. The members have eight core responsibilities. These include;

1. Receive the report of the past year's work, the statement of accounts for the same period and any auditor's report.
2. Decide on the manner of disposal of the net surplus gained in the last financial year, provided that the proper amount has been credited to the statutory reserve and other reserves.
3. Consider appeals against the expulsion of members
4. Elect members of the management board, loans committee and the supervisory committee
5. Fix allowances or honoraria, if any, for voluntary work done for the union by officers or members

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The second highest decision making body of the union is the Management Board. It is the executive organ of the union. The management board consist of a maximum of eight members. It includes the chairman, vice chairman, treasurer, assistant treasurer, other officers as may be required, and other members, provided that no such person shall be an employee of the union or a member of loans or supervisory committee. Key among the duties of the management board are:

1. Determine the purpose and objectives of the credit union
2. Develop and ensure the implementation of operational policies of the credit union (lending, saving, investment, financial, personnel, etc)
3. Develop both short, medium and long-term business plans for the growth of the credit union
4. Engage the services of a manager for the day-to-day activities of the credit union and fix his or her remuneration and conditions of employment.
5. Ensure that true and accurate records and accounts of all transactions of the union are kept.
6. Determine the dividend rate on shares, interest rates to be charged and paid on loans and savings respectively as is deemed necessary.
7. Prepare and present budgets at the Annual General Meeting for approval by the general members.

The supervisory committee is another important unit of the credit union. The key function of the committee is to check whether the management board has fulfilled its functions properly. Also, they are to check whether the loans committee has followed the prescribed procedure in granting loans particularly with regard to security. Furthermore, they are to see that a complete audit of the books of accounts is made at least once a year.

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Members of this committee are not to be members of the management board, loans committee, signatories, or persons handling cash or accounts on behalf of the union.

The loans committee is also key to the operations of the credit union. Their core mandate is to grant loan only in accordance with these bye-laws and the rules and policies laid down by the management board. The committee can only decide on loans at proper meetings and if the required quorum is formed.

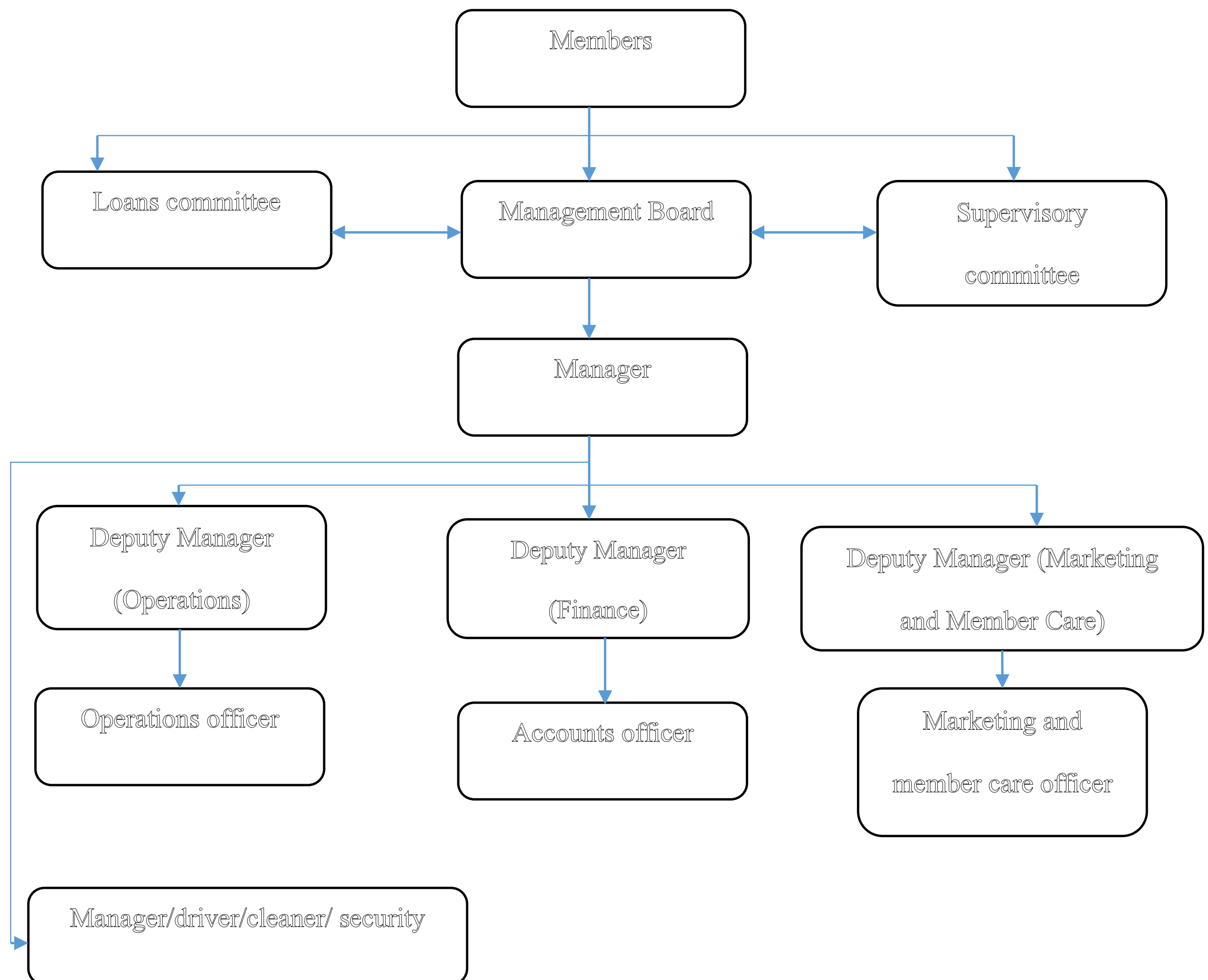

Figure 4.1: UG Cooperative credit union limited organisational chart
Source: UGCU, 2015

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Discussion

The members of the union constituting the highest decision making body of the union is refreshing. This indeed is fundamental to the concept of credit unions where the members of the union determine and decide for themselves how their financial contribution should be managed, how it should be invested and what kind of investment. This arrangement by the University of Ghana co-operative credit union is in consonance with both the Africa and world cooperative governing bodies' standards.

The management board has some checks and balances that will promote accountability to members. For example, the stated maximum two four years terms and when you serve these two terms consecutively, you need to take a break before you can stand for re-election. Also, individuals elected unto the management committee are elected by identifiable staff associations of the University of Ghana and this promotes fair representation of the various interest groups.

An examination of the bye-laws show that there is no well stated and defined requirement on competence and the ability of the member seeking the position on the management board and any other committee of the credit union. According to paragraph 46(b) of the bye-laws of the credit union, an aspiring member maybe disqualified on the bases of history of any fraudulent activities, embezzlement, loan delinquency, irregular savings and involved in any other act that is contrary to the rule and regulations of the credit union. Furthermore, paragraph 49(a) says members of the management board shall be elected by identifiable staff association of University of Ghana and approved at the Annual General Meeting.

Given the critical role played by the management board and other committees in the operations of the credit union, this observation can undermine the effective running of the union. The lack of well-defined competencies of aspiring members to the various committees

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of the credit union is contrary to the International Credit Union Governance Principles developed by the World Council of Credit Unions, Inc. (WOCCU). Specifically under individual governance competence, the council recommends that all members of the board possess basic financial skills. They argue that credit unions, as financial institutions, require a board that fully understands the environment in which they operate or have the skills and experience to understand financial operations (WOCCU, 2005).

Also, the bye-laws states that the maximum number of individuals who can constitute the management board is eight. This even numbered board can pose major challenges to the board in decision making. If the chairman of the board abstains from voting, he/she is been denied the opportunity to affect the decision of the board. If however, he/she votes and there is a tie, and the chairman is to have a casting vote in a tie, the other members might feel resentment toward the chairman. Thus, affecting the performance of the board in the discharge of its duties.

The maximum even numbered board of eight is a clear contradiction of the international credit union governance principle under internal governance structures. The first principle says "*the board of directors should be composed of an odd number, no less than five and no greater than nine*". However, the University of Ghana credit union is complying with international standards on having adequate representation on the management board. The different recognised bodies in the union are represented on the management board. The internal governance balance says "*the composition of the board should aim to adequately reflect the demographic makeup of its members and balance the financial service demands of members*".

The secured term of office for members of the supervisory committee promotes the independence of the committee and its members. Members' inability to serve on other committees like the management board and loans committee coupled with their inability to be

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signatories, persons handling cash or accounts on behalf of the union also improves the internal control mechanisms of the union by avoiding potential conflict of interest positions. These internal mechanisms will help the members of the supervisory committee execute their functions without fear or favour.

Risk management structures within the University of Ghana credit union

Results

Objective two is to examine the risk management structures within the University of Ghana credit union. Credit unions like any other financial organisation are confronted with different risks. These risk include; Credit risk, market risk, liquidity risk, operational risk, and cooperate risk. For the purposes of this study, the credit and liquidity risk management structure of the University of Ghana credit union will be examined.

The loans committee and the management board are the pivotal committee in the risk management structure of the University of Ghana credit union. The particular functions of the loans committee are:

1. Consider all loan applications for approval provided that it is above the manager's approval limit.
2. Ensure that loans are properly secured.
3. Determine reasonable conditions of repayment.
4. Monitor and follow up delinquent loans.
5. Make recommendations to the management board for action to be taken against delinquent borrowers.

In order to curtail the liquidity risk, paragraph 17(b) of the bye-laws states that "at any given time the total of all loans to members shall not exceed 70 percent of the total assets of the union or as determined by the management board or Ghana Credit Union Association (CUA). Also, the management board shall determine the maximum loan to be granted to a

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member from time to time. However, no individual shall be granted a loan more than twenty percent of the total savings of the union.

Furthermore, all loans requests by members must be in writing on prescribed loan request forms. Also, in order to check liquidity risk, the credit union under no circumstance will grant loans to members for a period exceeding five years commencing on the date on which the loan is paid to the member.

The union has established a reserve fund which shall serve to protect the union in case a loss is made at the end of the financial year. The General Meeting shall decide on the disposition of the reserve fund. The fund shall be credited with at least twenty-five percent of the net surplus at the end of each financial year. The fund shall not be less than the equivalent of ten percent of the total assets of the union subject to the approval of the Registrar.

Credit risk is one of the most important risk confronting credit unions. Members' commitment to honour their financial obligations to the union especially if they have taken loans from the union can be very challenging. To reduce credit risk, the University of Ghana credit union has put in place the following measures:

1. For the first six months of membership, members shall receive loans only to the extent of their savings.
2. Loans shall be secured by the borrower's own savings and if necessary, the savings of one or more members
3. The guarantors shall indicate the amount of their savings to be pledged as security of r a loan in writing on the prescribed form.
4. Savings of a borrower or a guarantor pledged as security for a loan may be pledged as security for another loan only after such savings have been released as security for the first loan.

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5. A wage assignment may be used as guarantee to a loan. A wage assignment is a written agreement between the borrower, the employer and credit union.
6. The management board shall have the power to vary the monthly deductions of individual members as it may deem necessary.

Discussion

The credit and liquidity risk management system in place at the University of Ghana credit union looks adequate. The procedure to acquire information on saving with the union, how to acquire union shares, liability of members and loan acquisition are all spelt out in the bye-laws. However, the final decision of loan acquisition and approval rest with the loan committee and the management board. The byelaws do not contain any laid down procedure for redress if a member disagrees with the loan committee's and the management board's decision. This lack of a defined redress procedure can cause disagreement and disaffection among members of the union.

Financial performance of the University of Ghana credit union

Results

Objective three is to examine the financial performance of the University of Ghana credit union over the last eleven years. To achieve this, the PEARLS evaluation system is applied.

Protection

The "**P**" stands for protection. It measures how secure the credit union is in terms of its assets and exposure to external financial transactions. At the centre of a credit unions operation is proper protection of assets of its members. The protection indicator is constituted by six ratios as presented in Appendix 1. Only the solvency of the University of Ghana credit union was computed based on accessible data. The results (Fig. 4.2) shows that, the solvency

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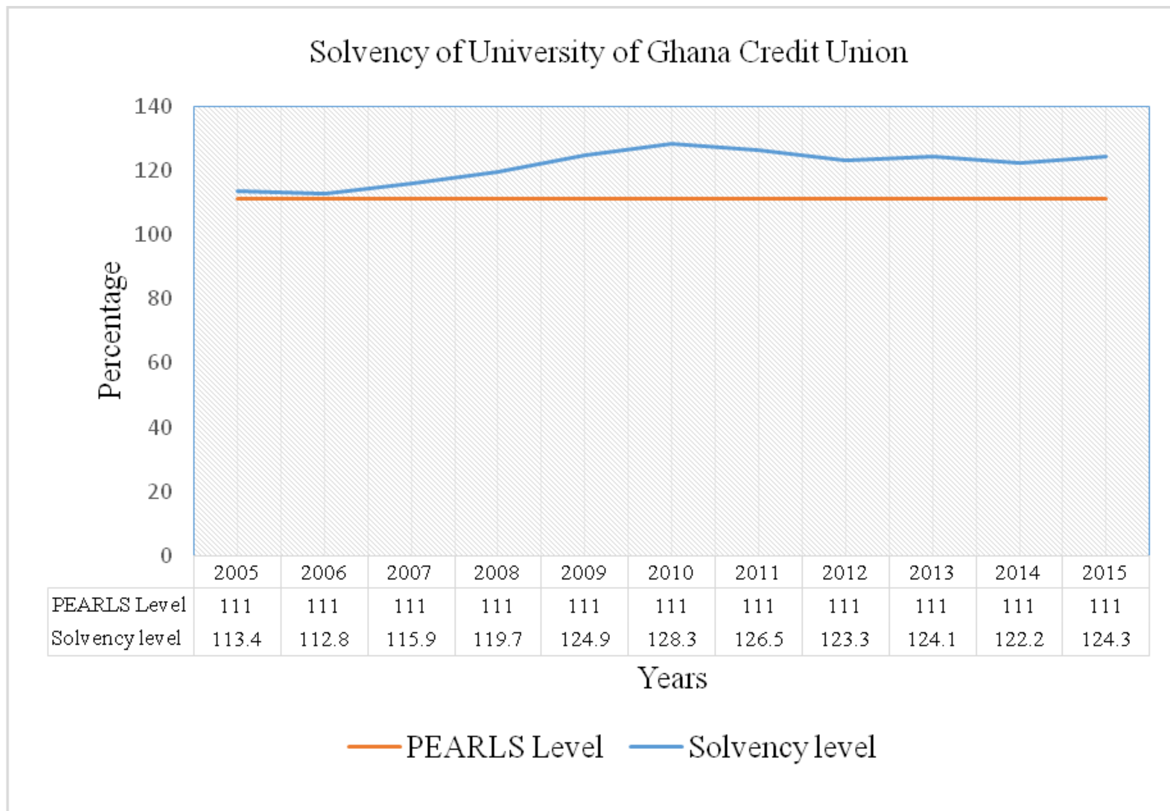
ratio of the credit union has consistently been above the PEARLS recommended level of at least 111 percent. Over the past eleven years, the average solvency levels of the credit unions is 121 percent.



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
PEARLS Level	111	111	111	111	111	111	111	111	111	111	111
Solvency level	113.4	112.8	115.9	119.7	124.9	128.3	126.5	123.3	124.1	122.2	124.3

Figure 4.2: Graph of solvency of University of Ghana credit union from 2005-2015
Source: Author's computation, 2016

Effective financial structure

This is the most important factor in determining growth potential, earnings capacity and overall financial strength. Effective financial structure measures assets, liabilities and capital and recommends an "ideal" structure for credit unions. (Richardson, 2009). From Table 4-2, the University of Ghana credit union has an unstable financial structure. Out of the four indicators computed, only one is consistently within the recommended levels of the PEARLS namely Member Share Capital/Total Assets. Over the past eleven years, member share capital/total assets ratio recorded its lowest value of 3.9 percent in 2005 and its highest of 10 percent in 2014. This is far below the maximum recommended limit of 20 percent.

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The Net Loans/ Total Assets, Liquid Investments/ Total Assets and Savings Deposits/ Total Assets have consistently been unpredictable. The Net Loans/ Total Assets ratio which is an indicator of how much loan is given out and thus the level of liquidity has consistently been less than the recommended levels of 70-80 percent. Over the past eleven years, the Net Loans/ Total Assets ratio has averaged 62 percent. This shows that there is excess liquidity. Keeping excess liquidity is not prudent because the margins on liquid investments (savings accounts) are lower than those earned on the loan portfolio. Therefore, the credit union is not maximising its available funds.

As expected, the Liquid investments/ Total assets ratio is also consistently above the recommended level of less than or equal to 16 percent except for 2005 and 2013. This ratio rose as high as 33.5 percent in 2011. The Savings deposits/Total assets ratio has seen a gradual movement towards the recommended levels of 70-80 percent. It has consistently declined from the 84.3 percent in 2005 to about 71 percent in 2015.

Table 4.1: Effective Financial Structure

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Goals (%)
Net Loans / Total Assets	63.6	61.9	72.7	62.7	66.9	54.3	53.9	55.7	65.0	64.3	63.3	70-80
Liquid Investments / Total Assets	15.0	20.8	18.0	23.1	21.2	32.0	33.5	28.0	4.1	14.9	17.8	≤ 16
Savings Deposits / Total Assets	84.3	83.7	82.1	78.0	73.8	70.2	71.1	72.2	71.3	71.8	70.9	70-80
Member Share Capital / Total Assets	3.9	4.9	4.1	5.6	6.2	7.7	8.0	8.9	9.2	10.0	9.6	≤ 20

Source: Author’s calculation, 2016

Asset quality

The asset quality indicator is made up of three ratios. Namely; total loan delinquency/gross loan portfolio, non-earning assets/total assets, and net zero cost funds/non-

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earning assets. The information provided by the credit union on these items were not enough to compute any of the ratios.

Rates of Return and Cost

The Rates of Return and Cost measure the average income yield for each of the most productive assets of the credit union. They ratios highlight which assets of the credit union are the most profitable. One of the ratios under this indicator is return on assets (ROA). The ROA is the ratio of net income to average assets. The ROA ratio highlights how much earnings the credit union is making on its assets. The PEARLS recommended level is at least 10 percent. From Figure 4.3, the University of Ghana credit union's ROA has consistently been less than 10 percent except in 2009 when it was exactly 10 percent. The ROA of the credit union has ranged from 3.3 percent in 2005 to its highest of 10.0 percent in 2009. The average growth rate of ROA from 2005 to 2015 is 7.3 percent.

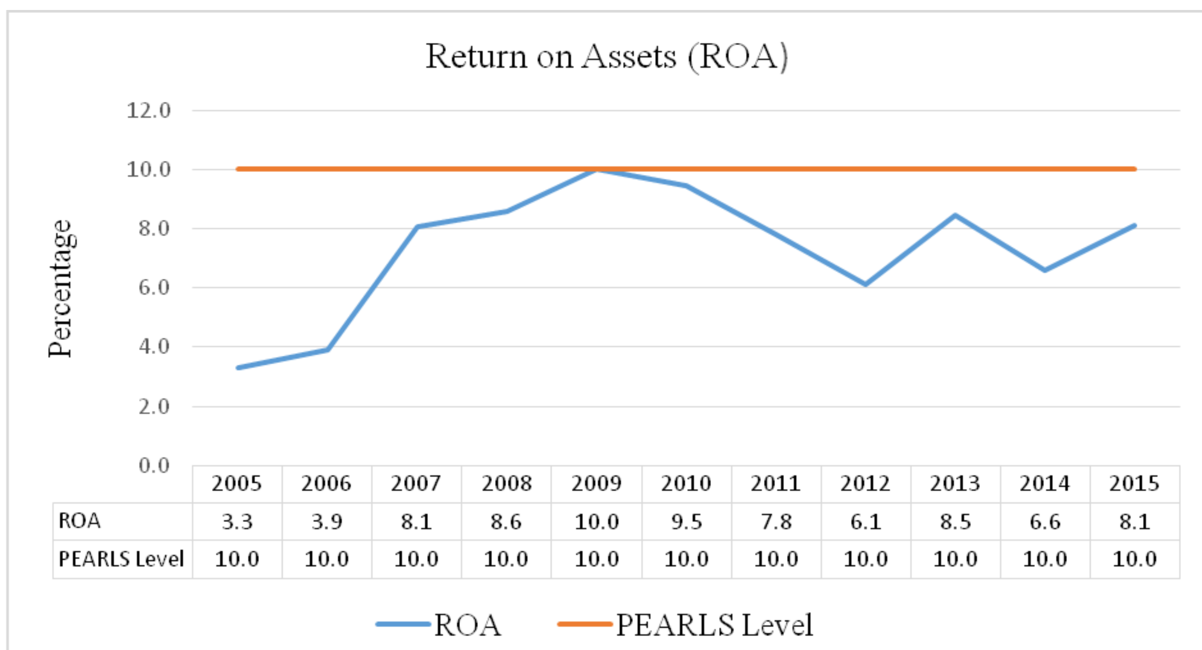

Figure 4.3: Graph of trend of Return of Assets (ROA)
Source: Author's computation, 2016

Liquidity

Liquidity is very important in the running of every organisation especially microfinance institutions who are in the business of giving loans to its members. The

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liquidity indicator has three ratios. The “Liquid assets – Short term payables/ Total deposits” ratio is presented in Figure 4-3. The recommended level of this ratio is between 15-20 percent. The results in Figure 4.4 shows that the University of Ghana credit union is struggling to attain this particular indicator. The ratio has recorded declines but has started making a steady rise from 2013 to its present value of 10.2 percent in 2015. Over the eleven years of this analysis the average growth rate of the ratio is 1.4 percent.

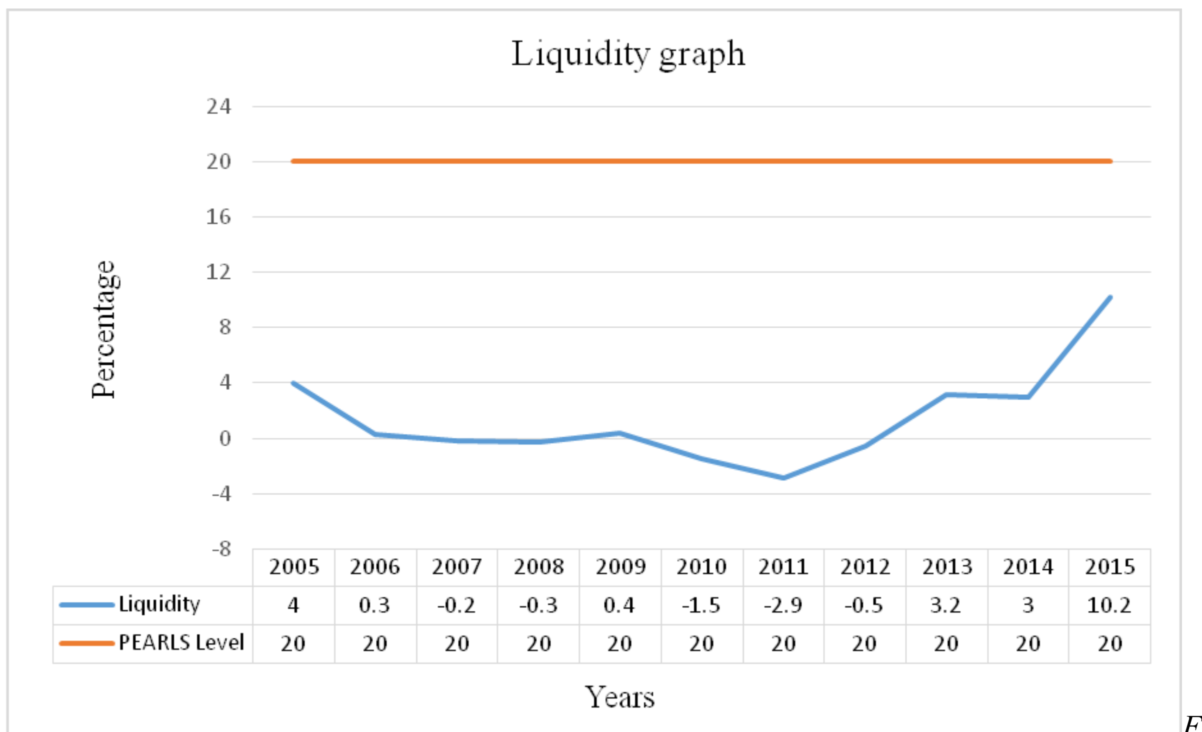

Figure 4.4: Graph of trend of liquidity ratio
Source: Author’s computation, 2016

<u>Signs of growth</u>

Under the Sign of Growth indicator, the growth in total assets of the credit union is a critical ration. According to the WOCCU, the recommended annual growth rate of total assets should be the country’s annaual inflation plus 10 percent. From Figure 4.5, the University of Ghana credit union has consistently been above this level. Although the growth in total assets has been mixed, it has consistently been above the recommended levels. The highest growth in total assets was recorded in 200t with a 46.5 percent increase in total assets.

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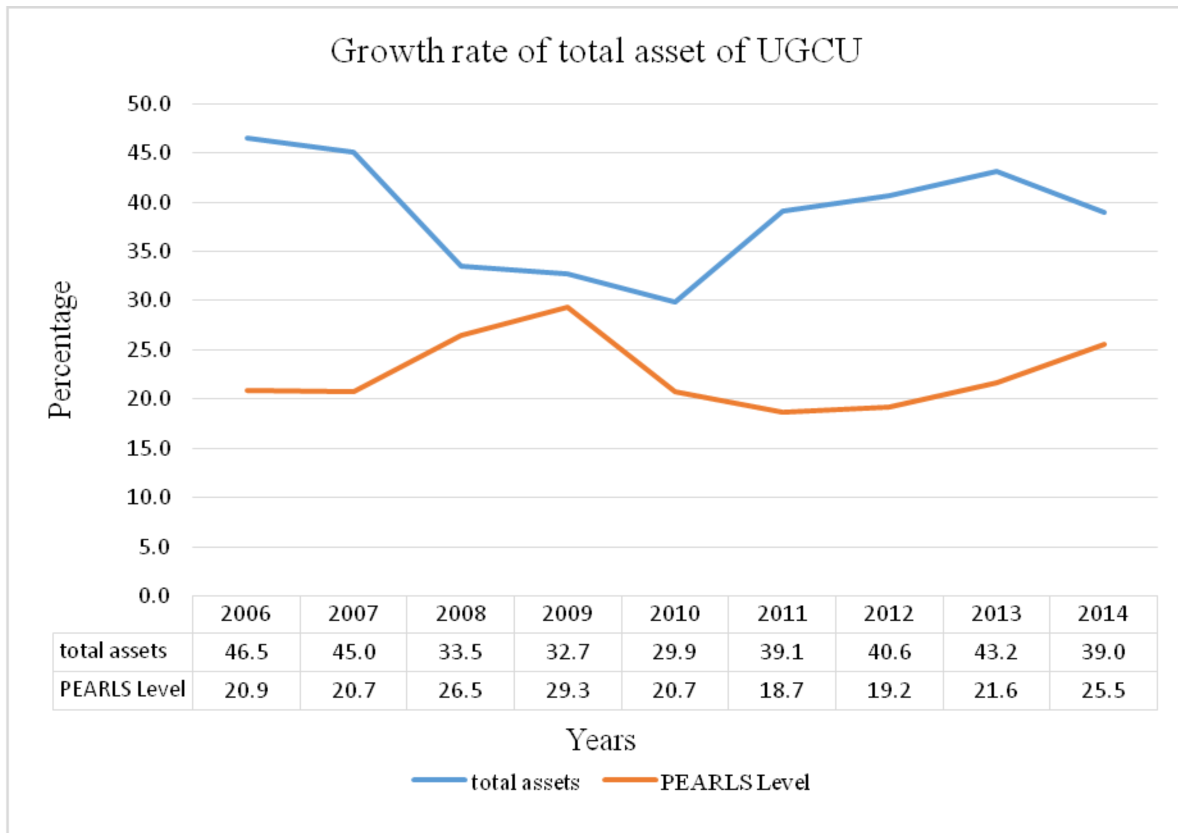
It experienced a dip since then until 2011 when it started to appreciate again. However, in 2014, it dipped once again to a rate of 39 percent which is still significantly higher than the expected 25.5 percent by PEARLS levels.



	2006	2007	2008	2009	2010	2011	2012	2013	2014
total assets	46.5	45.0	33.5	32.7	29.9	39.1	40.6	43.2	39.0
PEARLS Level	20.9	20.7	26.5	29.3	20.7	18.7	19.2	21.6	25.5

Figure 4.5: Graph of growth rate of total assets of University of Ghana credit union
Source: Author computation, 2016

Membership growth in every organisation is key to the success of that organisation. The PEARLS recommended level for annual membership growth is at least 15 percent every year. The University of Ghana credit union has not been able to achieve the 15 percent mark since 2006 to date as presented in Figure 4.6. Membership saw a slight increase on the 2006 figure of 5.3 percent to 5.8 percent in 2007. However, there was a sharp decline in growth in 2008 with a negative growth of -1.7 percent. There has been a positive growth rate since then although it has been gradual. The highest growth in membership was recorded in 2012 with a value of 12 percent. Between 2006 and 2015, the average membership growth rate was 6.3 percent.

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Figure 4.6: Graph of growth in membership of UGCU from 2006-2015
Source: Author's computation, 2016

From Figure 4.7, the University of Ghana credit union has not been able to comply with the WOCCU recommendation of annual growth in member share. The recommended level is to be less than or equal to 20 percent. The growth in member share was highest in 2006 with a percentage of 87. There was sharp decline to about 21 percent in 2007 after which it peaked again to 79 percent in 2008. The growth in member share has since be mixed with increases and declines. The average annual growth in member shares from 2006 to 2015 was 52 percent.

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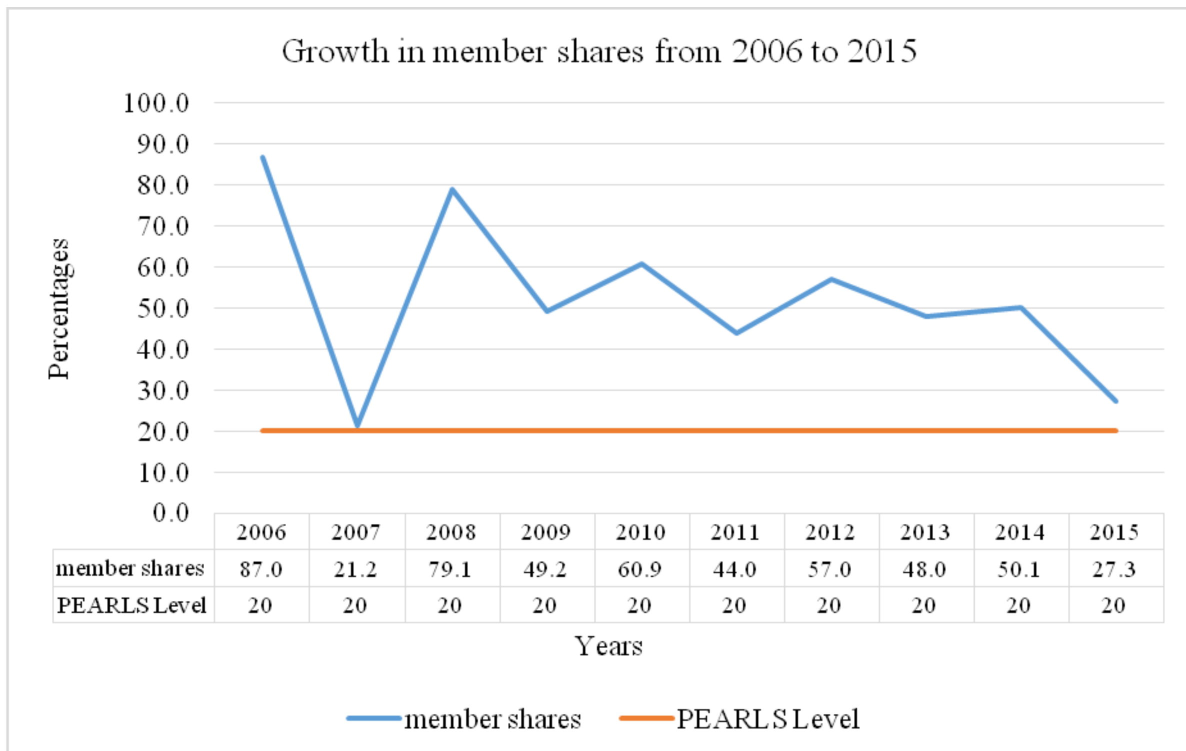

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
member shares	87.0	21.2	79.1	49.2	60.9	44.0	57.0	48.0	50.1	27.3
PEARLS Level	20	20	20	20	20	20	20	20	20	20

Figure 4.7: Graph of growth in member shares of UGCU from 2006-2015
Source: Author's computation, 2016

From Figure 4.8, the University of Ghana credit union has not been able to attain the WOCCU recommendation on annual increase in saving deposits. The recommended level of savings deposit is 70-80 percent. The University of Ghana credit union has not been able to attain this level in the last 10 years. The growth in savings deposits was highest in 2006 with a percentage of about 46. There was a decline since 2006 to 2010 from 42 to 23 percent. There was an increase in 2011 of about 41 percent. The growth in savings deposit plateaued between 2011 and 2014 ranging between about 40 and 43 percent. There was a decline in 2015 of 30 percent. The average annual growth in savings deposit from 2006 to 2015 was about 36 percent.

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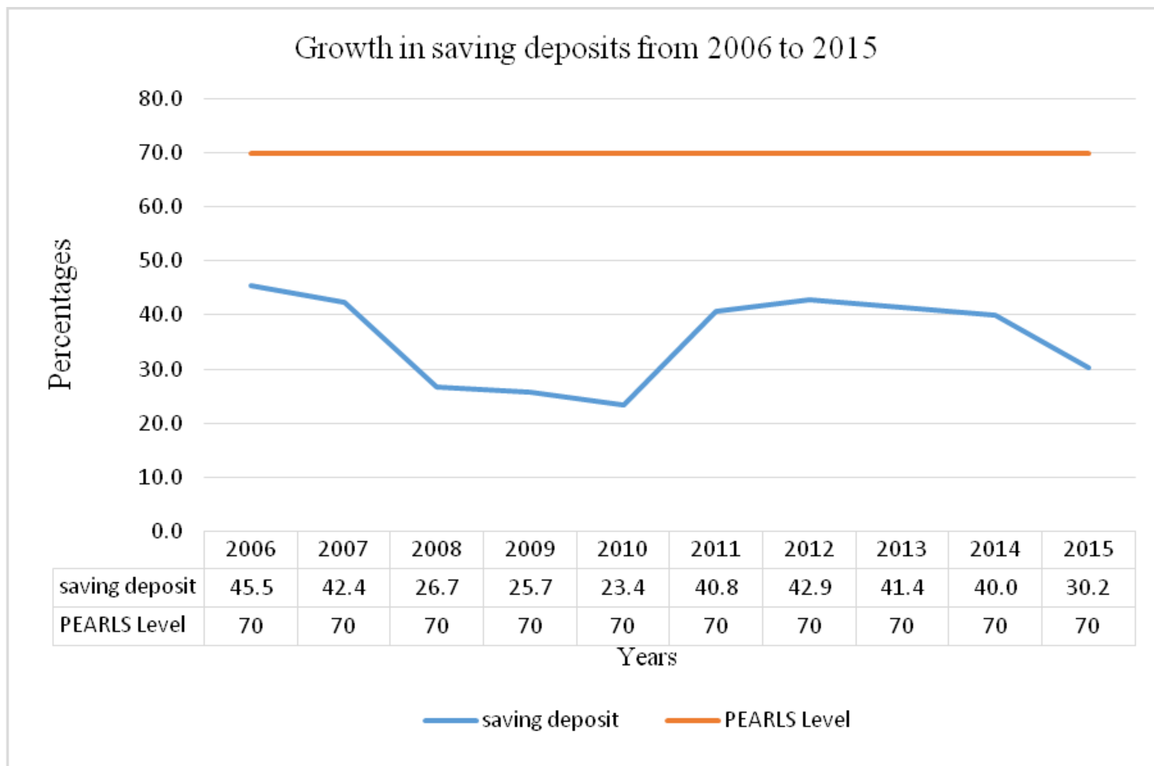

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
saving deposit	45.5	42.4	26.7	25.7	23.4	40.8	42.9	41.4	40.0	30.2
PEARLS Level	70	70	70	70	70	70	70	70	70	70

Figure 4.8: Graph of growth in saving deposits of UGCU from 2006-2015
Source: Author's computation, 2016

From Figure 4.9, the University of Ghana credit union has not been able to attain the WOCCU recommendation on annual increase in liquid investments. The recommended level for liquid investments is at most 16 percent. The University of Ghana credit union has not been able to attain this level in the last 10 years but rather it has astronomically high liquid investment growth rates. The University of Ghana credit unions best performance in this ration was in 2012 when it recorded 17.6 percent in liquid investments. The growth in liquid investments was highest in 2014 with a percentage increase of about 404 percent. In 2013, it recorded a negative growth in liquid investments of 79 percent. From 2006 to 2015, the average growth in liquid investment was about 76 percent.

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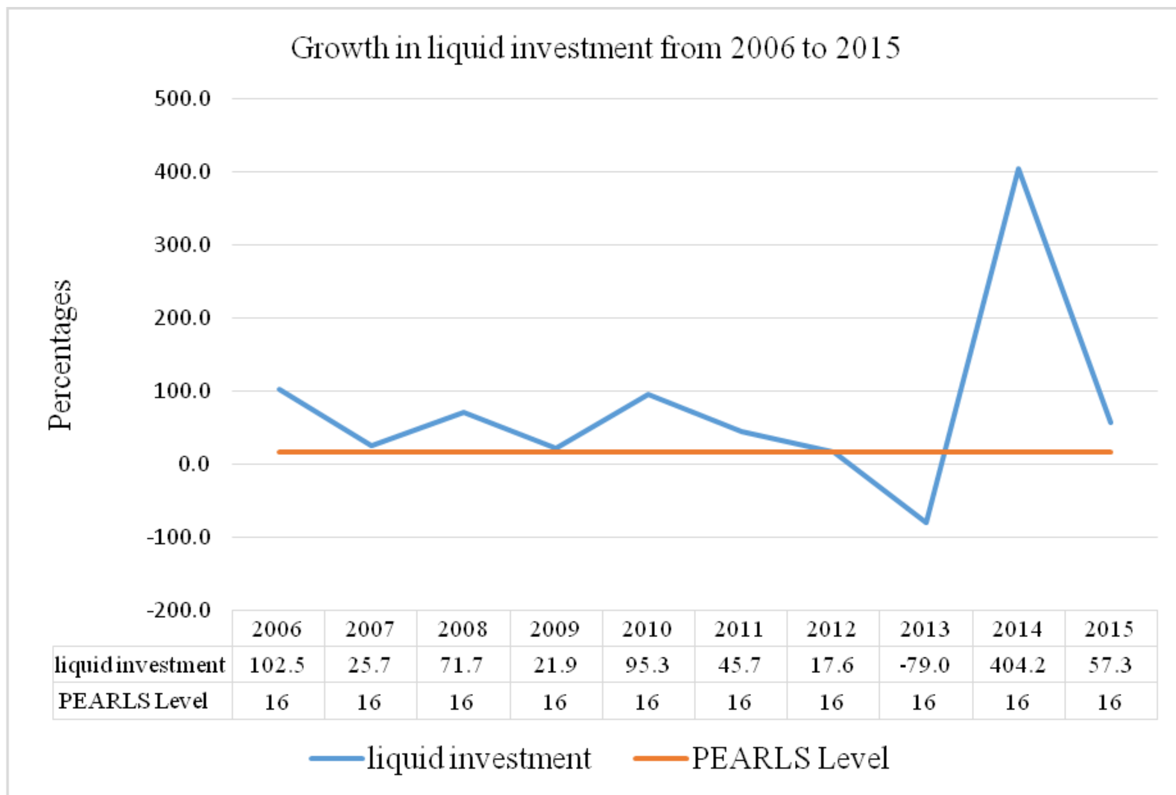

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
liquid investment	102.5	25.7	71.7	21.9	95.3	45.7	17.6	-79.0	404.2	57.3
PEARLS Level	16	16	16	16	16	16	16	16	16	16

Figure 4.9: Graph of growth in liquid investment of UGCU from 2006-2015
Source: Author's computation, 2016

From Figure 4.10, the University of Ghana credit union has not been able to attain the WOCCU recommendation on annual increase in net loans. The recommended level for net loans is to range between 70 and 80 percent annually. The University of Ghana credit union has not been able to attain this level in the last 10 years except in 2007 where it attained about 70 percent. The growth in trend of net loans has been mixed. The University of Ghana credit union best performance in this ratio was in 2007 where it recorded 70.1 percent. The growth in net loans was lowest in 2010 when it recorded 5.4 percent. From 2006 to 2015, the average growth in net loans was about 39 percent.

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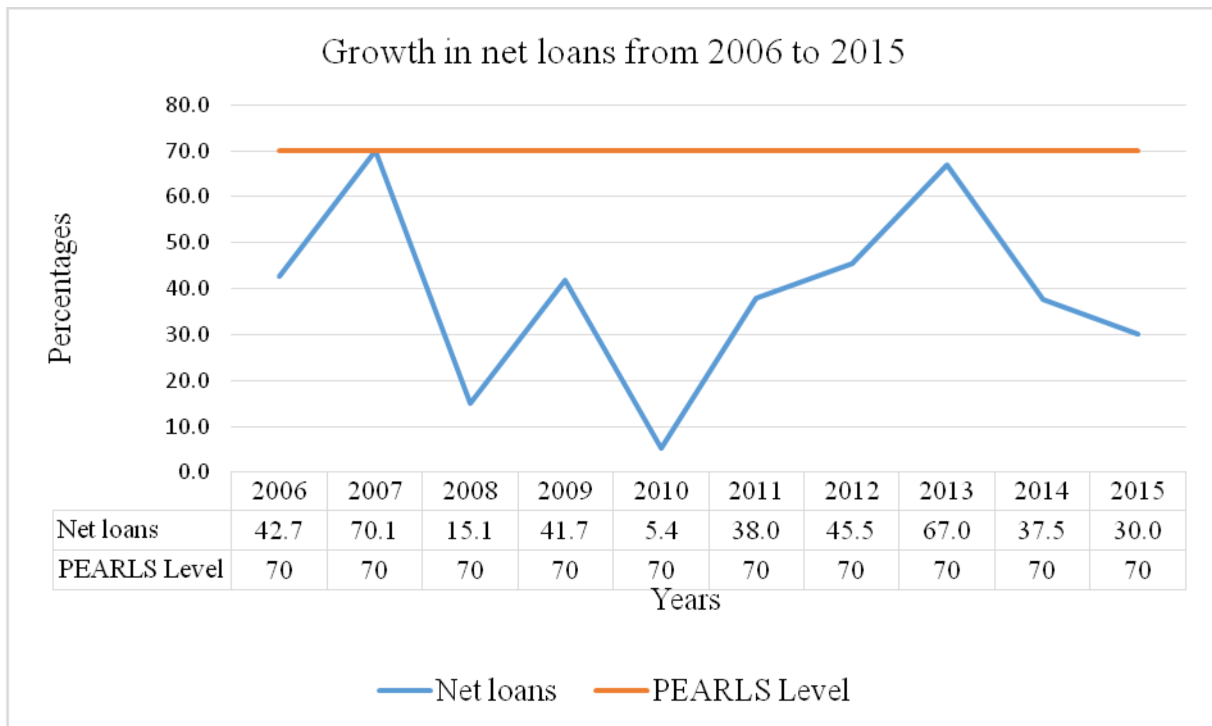

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Net loans	42.7	70.1	15.1	41.7	5.4	38.0	45.5	67.0	37.5	30.0
PEARLS Level	70	70	70	70	70	70	70	70	70	70

Figure 4.10: Graph of growth in net loans of UGCU from 2006-2015
Source: Author's computation, 2016

Discussion

Under the PEARLS' Protection indicator, the solvency ratio computed shows that the University of Ghana credit union is adequately protected. This shows that the University of Ghana credit union has funds to secure its non-performing loans. The credit union has consistently been above the recommended level of solvency. This implies that the credit union has enough funds to cover its delinquent loans. This ratio is very important because, members are assured of the union continuing as a going concern because the union has enough resources cover its non-performing loans. This also means that the level of non-performing loans is low. This is an indication that the loan requirement rules and background checks done on loan applicants is effective.

The Effective Financial Structure indicator shows a mixed performance by the University of Ghana credit union. The credit union has consistently not been able to meet the net loans/total assets ratio. The loan portfolio is the most productive asset of credit unions and since the credit union has not been able to meet the recommended level of 70-80 percent, it

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implies that the credit union is not able to maximise its most productive asset to increase their earnings. This situation leads to reduced returns to members on their investments. Thus, managers of the union should be keener on investing the resources of members prudently in ventures that will bring higher returns to members.

The liquid investment/total assets ratio has mostly been above the recommended 16 percent level over the past eleven years. The credit union is putting most of their liquid funds into investments and this can affect the availability of funds for immediate cash expenditures. It can also be explained that since the credit union does not have significant immediate cash demands, they invest more of their liquid funds.

The savings deposits/total assets has over the past eleven years been within the recommended level of 70-80 percent except for 2005 to 2007. The member share capital/total assets ratio looks very good. The ratio produced by the credit union has been below the maximum limit of 20 percent set by WOCCU. These two ratios shows a good signal that the credit union members are actively saving in the credit union and the credit union is not heavily dependent on member share capital. The new WOCCU model emphasises the dependence of credit unions on savings and contributions of member for growth rather than on member share capital. These two ratios show that the credit union is achieving financial independence.

The Return of Assets (ROA) ratio show that the University of Ghana credit union is not making enough returns on its assets as recommended by WOCCU. This ratio indicates that the credit union can improve how it manages its investment decisions to increase the return it makes on its productive assets. This result is in consonance with the net loan/total asset ratio because the loans portfolio which is the most productive asset of credit unions is not within the recommended level of 70-80 percent. The University of Ghana credit union's average net loans/total assets ratio is 62 percent from 2005 to 2015. For example, from table

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4.1 and figure 4.3, in 2007 when the net loan/total asset ratio was about 73 percent, the ROA was about 8 percent. In 2009 when the net loan/total asset ratio was 67 percent, the ROA was 10 percent and in 2013 when the net loan/total asset ratio was about 65 percent, the ROA was 8.5 percent. This shows that when the loans portfolio performs well, it has a positive effect on the ROA.

The University of Ghana credit union has not been able to stay within the recommended liquid assets – short term payables/ total deposits ratio of 15-20 percent. This ratio measures the availability of cash needed for withdrawals. The credit union recorded negative ratios between 2007 and 2012. However, it is gradually recovering as can been seen in its 2015 figure of about 10 percent. The poor liquid assets – short term payables/ total deposits ratio can be explained by the liquid investments made by the credit union. This is because as presented in table 4.1, the liquid investment/total asset ratio should be less than 16 percent but the University of Ghana credit union has higher ratios. The high liquid investment by the credit union can account for why there is no readily available cash for re-drawals. Also, table 4.1 shows that between 2007 and 2012, the liquid investments were above the recommended levels and it is within the same period that the liquidity ratio was negative.

Every organisation is about growth. Most of the parameters that measure the sign of growth indicator shows that the University of Ghana credit union is growing. The total assets over the past decade has consistently been above the recommended growth rate. However, the growth in membership is lagging behind the recommended levels. Although each year, new individuals join the credit union, the number of those who go on retirement or leave the union is sometimes greater. This dampens the growth rate of the credit union. Also, the large size of the credit union equally makes the impact of new members on membership growth rate not high. For example, as at June 2015, the membership increased from 4,979 to 5354. This is an increase of 375 members but just a 7.5 percent increase in percentage terms.

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Another ratio of the sign of growth indicator is member shares. The University of Ghana credit union's growth is dependent on the member shares. The WOCCU encourages credit unions to grow on the back of member deposits rather than member shares. Member shares has been a component of the University of Ghana credit union's growth over the last decade. This is confirmed by the growth in saving deposits ratio. From 2006 to 2015, the savings ratio has been between 23 and 45 percent. This is below the recommended levels of between 70-80 percent. Therefore, it can be concluded that member shares contributes more to the University of Ghana credit union than member deposits.

The liquid investment growth rate should be at most 16 percent annually by WOCCU standards. This was not the case for the University of Ghana credit union. Although the credit union has not remained within the recommended limits of the PEARLS, a striking growth rate was recorded for the period 2012 to 2014. As contained in the reports and financial statement for 2012/2013 financial year, the chairman of the University of Ghana credit union attributed the low liquid investments to the "difficult operating environment, especially, when interests on investments fell". Liquid investments in 2012 was GHC 4,926,336.72, GHC 1,036275.76 in 2013 and GHC 5,225,154.75 in 2014. This sharp increases and decreases in the liquid investments account for the sharp spikes observed in the growth in liquid investment graph.

The net loans growth rate has a mixed growth. Although there have been declines in the growth rate, it has remained positive. This is a signal to the union that more can be done to increase the number of members who take loans from the union.

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CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Introduction

This chapter is divided into three main parts. The first part presents the summary of the study. It covers the research problem, research questions and objectives of the study. The second part presents the conclusions of the study. Based on the results and discussions presented in chapter four, conclusions are drawn based on the research objectives of the study. The final part presents the recommendations of the study. Policy recommendations are presented based on the objectives of the study.

Summary of the study

The primary objective of the study was to identify and examine the corporate governance systems of the University of Ghana credit union. The specific research objectives were; identify the corporate governance systems in place at the University of Ghana credit union, examine the risk management structures within the University of Ghana credit union, and examine the financial performance of the University of Ghana credit union over the last decade.

To achieve the above specific objectives, various research methods, techniques and statistical tools were applied. A case study approach was used for this study. This approach was adopted to provide an in-depth analysis of the operations of a typical workplace credit union in terms of the corporate governance systems in place. The main analytical tool used in this study was Microsoft Excel. Microsoft Excel was used in computing the various ratios, percentages and drawing graphs. The data used in the study was mainly sourced from the financial reports of the credit union from 2005 to 2015. The data was also sourced from the bye-laws of the credit union, the organogram of the union and the audited financial

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statements of the credit union from 2005 to 2015. The following are the summary of the results obtained:

With respect to identifying the corporate governance systems in place at the University of Ghana credit union, it was found out that the Annual General Meeting (AGM) of members is the highest decision making body. This is in conformity with the WOCCU recommendation that members should actively decide how their money should be managed. The management board is the second highest decision making board of the union. They decide on the appropriate direction the union should go. However, the management board has some potential weaknesses. The maximum number of members to sit on the board is eight. This can affect decision making if there is a tie. Also, another potential weakness is that there is no specific academic or competency requirement for serving on the board. This can affect the ability of the board to function effectively in the management of the union.

Also there is the loans committee and the supervisory committee. These committees also suffer from the weakness of no well-defined academic requirement and competencies to serve on these committees and these committees are also even numbered committees. However, a positive side of the corporate governance structure of the union is that no member on the management board can serve on either the loans or supervisory committees and vice versa. This arrangement will promote the independence of these units to perform their functions effectively and fairly.

With regard to examining the risk management structures within the University of Ghana credit union, it was found out that the credit union has in place an adequate risk management system. They are meticulous in making sure that there is enough security around the loans they give out to members. They have a good system in place to properly profile all members who want to take loans. Annually, the management board sets the maximum percentage of a member’s deposits that can be given out in loans. Also, before a member can

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take a loan, he/she needs to be guaranteed by two other members of the union. These measures have minimised the number of loan delinquent members.

On the issue of examining the financial performance of the University of Ghana credit union over the last decade, the PEARLS evaluation system by the World Council of Credit Unions (WOCCU) was applied. It was found out that the University of Ghana credit union's financial performance over the past decade has been impressive but not all the PEARLS indicators performed well. It has adequate solvency levels which implies that it can adequately cover its financial exposures. The credit union is not maximising its loans portfolio which is its most productive asset. The net loans/total asset is not within the recommended level of PEARLS. The credit union is depending on its members' deposits for its operations which is a good signal. This aggregation of these ratios shows that the effective financial structure of the union is adequate.

There was not enough data to compute the asset quality of the credit union. On the returns of assets (ROA), the credit union is not within the PEARLS recommended level since the credit union is not maximising its loan portfolio. The total assets of the credit union is growing steadily and is within the PEARLS recommended level. Although, the membership is also growing steadily it is not within the PEARLS recommended level. This is because, the union has a large membership and therefore increases in membership are not always significant in percentage terms. Net loans is growing but more can be done to increase it.

Conclusions of the study

Based on the results and discussions in chapter four of this study, the following conclusions can be reached:

1. The users of the services of the credit union who double as the owners of the credit union are the highest decision making body of the union.

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2. The University of Ghana credit union operates a one tier board system. The credit union has a management board which is an executive management board who are responsible for the management of the credit union and set its goals and objectives for each financial year.
3. The University of Ghana credit union does not have a very robust corporate governance system. The organogram and the corporate structure looks good as a whole but the composition of the important units like the management board, loans committee and the supervisory committee still needs some improvement. There is no well-defined academic and skill competence requirements for selection onto these important bodies.
4. The major decision making bodies of the union, namely: the management board, loans committee and supervisory committee have a guaranteed term of office so they can easily perform their functions without fear or intimidation.
5. There is the reduced threat of conflict of interest among members of the various committees and the management board since the bye-laws states that members of these groups cannot belong to more than one of the bodies. These will allow the various bodies to function effectively.
6. The credit union has adequate risk management systems in place to manage the core risk of loan default, credit risk and liquidity risks. The union ensures that the funds they give out are well guaranteed and the appropriate documentations are provided before a loan can be given to member.
7. The credit union has a reserve fund which serves to mitigate the union against any loses at the end of the financial year. This is to curtail any potential liquidity risk.
8. The solvency position of the credit union is very adequate. The credit union is protected from financial exposure.

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9. The credit union has an adequate effective financial structure. Although it is not maximising its loan portfolio, it depends more on members' savings and deposits than member share capital to run its operations. This is a good signal for the union's financial position.
10. Since the union is not maximising its loan portfolio which is its most productive asset, the Return On Assets (ROA) is also not at the 10 percent recommended level of PEARLS.
11. The liquidity position of the credit union is not well managed. There is too much fluctuation in the liquidity management of the union.
12. On the whole, the University of Ghana credit union is growing. There is growth in total assets and membership. The component of member savings in total assets is increasing whiles that of member shares is reducing. This is good for the future growth of the union because there is a growing base of mobilising funds for the union.

Recommendation of the study

Based on the conclusions of the study, the following recommendations are made:

1. The even numbered board composition of the management board, the loans and supervisory committees should be made an odd number to promote better decision making and bring clarity to voting decisions. This will promote better corporate governance.
2. There should be a well-defined skills and academic competencies requirements in addition to been representatives of recognised groups in the union for all members who want to serve on any committee. This will not only promote fair representation but also transparency, efficiency and better corporate governance practices.

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3. The management board and the loans committee should team up and encourage more members to take loans to increase the loans portfolio in total assets because the loans portfolio is the most productive asset of the union. The union can get more returns on its assets from its loan assets.
4. The management board should manage better their investment in long term assets and fixed deposits to free up more cash to take care of their liquidity requirements.
5. Management should increase its membership drive to make up for those members who are leaving the union due to transfers, retirements and any other reason.

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APPENDIX 1

PEARLS RATIOS

	P-Protection	Goals (Excellence)
1.	Loan losses allowances/Delinquency less than 12 months	100 %
2.	Net loans loss allowances/ world council allowance required for delinquency for 1-12 months	35%
3.	Complete loan charge-off of delinquency greater than 12 months	Yes
4.	Annual loan charge-offs/average loan portfolio	Minimised
5.	Accumulation charge-offs recovered/ accumulated charge-offs	>75%
6.	Solvency (Net value of assets/total shares and deposits)	$\geq$111%

	E-Effective Financial Structure	Goals (Excellence)
1.	Net loans/total assets	70-80%
2.	Liquid investments/total assets	$\leq$16%
3.	Financial investments/total assets	$\leq$2%
4.	Non-Financial investments/total assets	0%
5.	Savings deposits/total assets	70-80%
6.	External credit/total assets	0-5%
7.	Member share capital/total assets	$\leq$20%
8.	Institutional capital/total assets	$\geq$10%
9.	Net institutional capital/total assets	$\geq$10%

	A-Asset Quality	Goals (Excellence)
1.	Total loan delinquency/ gross loan portfolio	$\leq$5%
2.	Non-earning assets/total assets	$\leq$5%
3.	Net zero cost funds/non-earning assets	$\geq$200%

	R-Rates of Return and Costs	Goals (Excellence)
1.	Net loan income/average net loan portfolio	Entrepreneurial rate
2.	Liquid investment income/average liquid investments	Market rates
3.	Financial investment income/average financial investments	Market rates
4.	Non-financial investment income/average non-financial investment	$\geq$R1
5.	Financial costs: savings deposits /average savings deposits	Market rates > inflation
6.	Financial costs: external credit / average external credit	Market rates
7.	Financial costs: member shares/average member shares	Market rates, > R5
8.	Gross margin/average assets	E9=10%
9.	Operating expenses/ average assets	$\leq$5%
10.	Provisions for risk assets/ average assets	P1=100%, P2=35%
11.	Other income or expense/ average assets	Minimised
12.	Net income/ average assets (ROA)	E9=10%

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	L-Liquidity	Goals (Excellence)
1.	Liquid assets-ST Payables/total deposits	15-20%
2.	Liquidity reserves/total savings deposits	10%
3.	Non-earning liquid assets/total assets	<1%

	S-Signs of Growth(annualised rates)	Goals (Excellence)
1.	Net loans	E1=70-80%
2.	Liquid investments	E2≤16%
3.	Financial investments	E3≤2%
4.	Non-Financial investments	E4=0%
5.	Savings Deposits	E5=70-80%
6.	External credit	E6=0-5%
7.	Member shares	E7≤20%
8.	Institutional capital	E8≥10%
9.	Net institutional capital	E9≥10%
10.	Membership	≥15%
11.	Total assets	>inflation + 10%

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