International Journal of Business Dynamics and Management

ISSN: 3121-6412

Volume 2, Issue 2, June 2026

(An International Peer-Reviewed, Open Access Journal Published by Academians Publishers)

Original Research Article

Influence of Board Composition and Transparency on the Financial Sustainability of Savings and Credit Cooperative Organizations in Sheema District, Uganda

Sempebwa Brian[1], Enock Maina[2], Namungo Hamzah[3], Turinawe Abdusalamu[4]

[1]*PhD Candidate Kampala International University Accounting and Finance Department*

[2, 3]*Senior Lecturers Kampala International University*

[4]*Assistant lecturer Kampala International University*

Abstract: Agency theory posits that board composition and transparency mitigate information asymmetry between members (principals) and management (agents), thereby enhancing organizational performance. However, empirical evidence is limited on how these governance mechanisms influence the financial sustainability of rural Savings and Credit Cooperative Organizations (SACCOs) in Uganda. Consequently, this study investigated the influence of board composition and transparency on the financial sustainability of SACCOs in Sheema District, Uganda. A quantitative cross-sectional design was employed. A standardized five-point Likert scale questionnaire was administered to 298 respondents, including board members, managers, and staff from key departments. Data were analyzed using SmartPLS 4.0 to assess both measurement and structural models. The findings revealed that both board composition and transparency have significant positive effects on financial sustainability. Transparency demonstrated a strong positive relationship ($\beta = 0.553$, $t = 8.512$, $p < 0.001$), while board composition exhibited a weaker but statistically significant relationship ($\beta = 0.160$, $t = 2.297$, $p = 0.022$). The model accounted for 46.7% of the variance in financial sustainability ($R^2 = 0.467$), indicating that both governance mechanisms collectively explain nearly half of the variation in sustainability outcomes for SACCOs. The study concludes that transparency is the primary driver of SACCO financial sustainability, with board composition serving as a complementary governance mechanism. Based on these findings, the study recommends that SACCO leaders prioritize open financial reporting and accountability structures; professionalize board membership through stringent qualification standards and continuous training; and strengthen both internal and external regulatory oversight. These recommendations hold significant implications for SACCO leaders, policymakers, and regulators seeking to enhance the sustainability of rural financial cooperatives in Uganda.

Keywords: *Board composition, transparency, financial sustainability, agency theory, SACCOs, PLS-SEM, Uganda*

1. INTRODUCTION

Savings and Credit Cooperative Organizations (SACCOs) are critical financial intermediaries in Uganda's rural areas, especially given the country's limited conventional banking infrastructure. Beyond mere financial intermediation, SACCOs represent strategically important institutional mechanisms for achieving financial inclusion, poverty alleviation, and rural development. According to the Ministry of Trade, Industry, and Cooperatives, the number of registered SACCOs increased from 5,798 in 2015 to more than 31,800 by 2025 (Damba, 2025). This remarkable growth reflects Ugandan households' increasing reliance on cooperative financial institutions, with credit from SACCOs currently representing the largest source of formal financing available to rural households (Damba, 2025).

The scientific rationale for this study stems from the observation that as SACCOs become dominant formal financial providers in rural Uganda, understanding the governance factors determining their survival and growth becomes both academically urgent and practically necessary. Furthermore, SACCOs play a crucial role in agricultural financing and poverty alleviation in agrarian districts like Sheema, providing credit, mobilizing savings, and offering essential financial services to smallholder farmers otherwise excluded from the formal financial system. However,

Received: 18 April 2026 | Revised: 22 May 2026 | Accepted: 05 June 2026 | Published: 30 June 2026

Corresponding uthor: Sempebwa Brian

the financial viability of these institutions remains a significant and persistent challenge. A recent systematic review on board composition and financial sustainability of Ugandan SACCOs indicated that despite their growth trajectory, many SACCOs continue to face severe sustainability challenges, including insufficient institutional capacity, political interference in governance, and weak regulatory compliance (Brian et al., 2025). This paradox rapid growth coexisting with chronic sustainability challenges constitutes the central research problem this study addresses.

This study investigates the relationship between selected corporate governance practices specifically board composition and transparency and the financial sustainability of SACCOs. Board composition is conceptualized as a multidimensional construct encompassing board size, diversity (including gender, and professional expertise), independence, and the frequency and quality of board meetings. Transparency is conceptualized as the extent and mechanisms by which SACCOs disclose accurate, timely, and comprehensible financial information to their members, regulators, and other stakeholders.

The study's scope is deliberately confined to Sheema District, Uganda, a choice justified on three grounds. First, Sheema District is characterized by high agricultural dependency, with smallholder farming as the primary livelihood activity, making SACCO services particularly critical for household economic security. Second, rural districts like Sheema present distinct governance challenges including lower average financial literacy, greater geographic dispersion of members, and stronger informal social networks that may moderate the relationship between governance practices and financial outcomes in ways not captured by urban or peri-urban studies. Third, existing research on SACCO governance has disproportionately focused on urban and peri-urban cooperatives, leaving rural contexts systematically under-researched. This study thus addresses a specific geographic and institutional gap in the literature. Financial sustainability, the dependent variable, is operationalized through multiple indicators: liquidity (ability to meet short-term obligations), solvency (capital adequacy relative to risk-weighted assets), profitability (return on assets and return on equity), and member deposit growth as a proxy for member confidence.

The relationship between governance practices and organizational performance has been extensively theorized and empirically tested across various institutional contexts. Yosa et al. (2024) demonstrated in a quantitative study of Ugandan SACCOs that board capital encompassing human capital (expertise, education, experience) and social capital (networks, relationships, external linkages) positively correlates with board role performance. Their findings further established that board role performance is significantly associated with SACCO survival outcomes, including liquidity and gearing ratios. This finding is consistent with resource-based theory (RBT), which posits that organizational competencies and resources, such as board expertise and transparency policies, are sources of competitive advantage and long-term viability when they are valuable, rare, inimitable, and non-substitutable (Barney, 1991). Yosa et al.'s (2024) study exemplifies the state of the art in demonstrating the resource-based logic of board composition effects within the Ugandan SACCO sector.

Concurrently, transparency has been identified as a vital component for building member confidence and accountability. As emphasized in governance training sessions conducted in Kole District, financial transparency is not optional; it is the foundation of trust in any SACCO (Omara, 2025). When leaders embrace transparency and accountability, they cultivate member confidence and establish the groundwork for sustained growth (Omara, 2025). This finding is corroborated by the recognition of Police Exodus SACCO as a high performer in the 2025 Financial Reporting Awards, explicitly attributed to enhanced accountability and transparency standards (Africa Press, 2025).

The existing literature on SACCO governance in Uganda exhibits several notable strengths. First, studies such as Yosa et al. (2024) have established robust quantitative evidence for the relationship between board capital and performance outcomes, employing appropriate statistical techniques and drawing on representative samples. Second, the literature has successfully identified specific governance mechanisms; board expertise, independence, meeting frequency, and financial disclosure; that appear to differentiate better-performing from underperforming SACCOs. Third, recent work has begun to disaggregate the concept of board composition into its constituent dimensions, moving beyond simplistic measures of board size to examine diversity, expertise, and social capital separately.

However, the literature also exhibits three significant limitations that this study addresses. The first limitation is geographic: most existing studies have focused on urban or peri-urban SACCOs, where member literacy rates are higher, regulatory oversight is more intensive, and alternative financial options are more readily available. The governance dynamics of rural SACCOs where members may have lower financial literacy, board members may be elected based on social standing rather than expertise, and transparency mechanisms may be informal or oral remain systematically under-researched. This geographic bias limits the generalizability of existing findings to rural contexts such as Sheema District.

The second limitation is analytical: prior studies have typically examined board composition and transparency in isolation rather than as simultaneous predictors of financial sustainability. This represents a significant omission because board composition and transparency are theoretically and empirically correlated; SACCOs with strong boards are also likely to have robust transparency practices. Estimating their effects separately risks attributing shared variance to one construct when it properly belongs to both. This study addresses this limitation by entering board composition and transparency as simultaneous predictors in a multivariate model, thereby estimating the unique net effect of each after controlling for the other.

The third limitation is conceptual: the literature has predominantly conceptualized financial sustainability narrowly, often using profitability as the sole indicator. This narrow operationalization overlooks other dimensions of sustainability, including liquidity (the ability to meet short-term obligations), solvency (capital adequacy), and member confidence (proxied by deposit growth). A SACCO can be profitable but illiquid, or solvent but experiencing declining member confidence. This study adopts a multi-dimensional operationalization of financial sustainability, providing a more comprehensive assessment than prior work.

The SACCO governance research can be summarized in four key findings that form the theoretical and empirical foundation for this study. First, resource-based theory provides a compelling explanatory framework for understanding how governance practices translate into financial outcomes. According to RBT, board expertise constitutes a valuable, rare, and difficult-to-imitate resource that enables SACCOs to make superior strategic decisions, manage risks more effectively, and adapt to changing environmental conditions. Yosa et al. (2024) found empirical support for this proposition in the Ugandan context, demonstrating that board capital positively predicts board role performance, which in turn predicts survival outcomes.

Second, transparency has been established as a necessary condition for member trust and accountability. The theoretical mechanism linking transparency to sustainability is agency-theoretic: when managers and boards disclose accurate financial information, information asymmetry between principals (members) and agents (managers) is reduced, enabling members to monitor performance and sanction poor management. Omara's (2025) practitioner report from Kole District and the recognition of Police Exodus SACCO (Africa Press, 2025) provide convergent evidence that transparency is positively associated with member confidence and institutional recognition.

Third, the relationship between governance practices and financial outcomes is context-dependent; effects observed in urban or well-regulated settings may not replicate in rural, less-regulated, or low-literacy contexts. This finding, while based on comparative studies across developing countries, has not been systematically tested within Uganda's rural-urban divide. It suggests the need for geographically disaggregated research.

Fourth, financial sustainability is a multi-dimensional construct. Studies that have used multiple indicators (liquidity, solvency, profitability, member deposit growth) have found that different governance practices predict different dimensions of sustainability. For example, board expertise may be more strongly associated with strategic decisions affecting profitability, while transparency may be more strongly associated with member confidence affecting deposit mobilization. This finding justifies the multi-dimensional operationalization adopted in this study.

Building directly on the state of the art and addressing the identified limitations, this study pursues two primary objectives: first, to examine the influence of board composition on the financial sustainability of SACCOs in Sheema District, Uganda; and second, to evaluate the predictive relationship between transparency and the financial sustainability of SACCOs in Sheema District, Uganda.

The novelty of this study is threefold, with each element explicitly linked to a limitation in the prior literature. The first novelty is contextual: this is one of the first studies to explicitly focus on rural SACCO governance in Uganda, specifically Sheema District. While prior studies have examined SACCOs in Kampala, Wakiso, and other urban or peri-urban locations, the governance dynamics of rural SACCOs; where members have lower average financial literacy, board elections may be influenced by kinship networks rather than professional qualifications, and transparency mechanisms may be oral rather than written have been largely overlooked. This study addresses this gap by providing empirical evidence from a rural, agriculturally dependent district.

The second novelty is methodological: this study departs from prior work by entering board composition and transparency as simultaneous predictors of financial sustainability. Most prior studies have examined these governance practices in isolation or have used bivariate analytical techniques that cannot distinguish unique from shared explanatory power. By employing multivariate analysis, this study estimates the net effect of each governance practice after controlling for the other, thereby providing a more precise estimate of their relative importance.

The third novelty is conceptual: this study adopts a multi-dimensional operationalization of financial sustainability that includes liquidity, solvency, profitability, and member deposit growth. Prior studies have often relied on profitability alone or on selfreported single-item measures. The multi-dimensional approach provides a more comprehensive assessment of sustainability and allows for the possibility that board composition and transparency may predict different dimensions of sustainability.

The coherent link between the state of the art and these research objectives can be explicitly stated: Prior studies have established the theoretical relevance of board composition and transparency and their empirical association with performance. However, these studies have systematically neglected rural contexts, tended to examine governance practices in isolation, and narrowly operationalized sustainability. This study advances knowledge by testing these relationships simultaneously in an under-researched rural setting using a multi-dimensional outcome measure. The findings will determine whether the relationships observed in urban and peri-urban Ugandan SACCOs replicate in the distinct governance environment of rural Sheema District.

Accordingly, this study addresses the following research question: What impact do board composition and transparency have on the financial sustainability of SACCOs in Sheema District, Uganda? Specifically, the study investigates whether board composition (encompassing diversity, independence, expertise, and meeting frequency) and transparency (encompassing financial disclosure, audit quality, and member access to information) exhibit positive, negative, or null associations with liquidity, solvency, profitability, and member deposit growth, after controlling for the shared variance between the two governance practices.

2. Literature Review and theoretical framework

2.1 Agency Theory

Agency theory, originating from the foundational work of Berle and Means (1932) and formalized by Jensen and Meckling (1976), examines the relationship between principals (members) and agents (managers/board members). It highlights the separation of ownership and control, often leading to conflicts of interest when agents prioritize personal gain over principal welfare. This dynamic necessitates robust oversight and monitoring mechanisms (Gwala & Mashau, 2023).

In the context of SACCOs, the widespread incidence of fraud and poor governance is frequently attributed to agency problems. Such problems manifest when managers or board members leverage their positions for personal benefit, exemplified by practices like self-authorized interest-free loans or the diversion of funds (Hendrastuti & Harahap, 2023). Consequently, agency theory is commonly applied in recent research to analyze how these agency problems affect financial performance and institutional sustainability (Donadelli et al., 2014).

Conversely, while Stewardship Theory posits that managers and board members are intrinsically motivated to act in the best interests of their members, empirical evidence from Ugandan SACCOs, including documented fraud, political interference, and misappropriation (Ampumuza et al., 2025; UG Bulletin, 2025), robustly supports agency theory as a more appropriate framework for this study. Agency theory predicts that without robust monitoring mechanisms, such as well-composed boards and transparent reporting, agents tend to prioritize self-interest over principal welfare. Therefore, this study adopts agency theory as its primary theoretical framework.

2.2 Board composition,

Board composition relates to the size of the board, the mix of executive and non-executive (independent) directors, and other desirable characteristics, such as gender diversity (Ongore et al., 2015). Recent research reveals that board composition is a significant predictor of SACCO financial sustainability in Uganda. Accordingly, one of the empirical analyses revealed a strong relationship between board composition and financial sustainability, with board features accounting for up to 52.1% of the difference in financial sustainability among SACCOs (Namuli, 2019). However, the efficacy of the composition depends on active participation. Further study contends that while board capital (expertise and networks) does not directly ensure survival, it positively corresponds with board role performance (oversight and strategic direction), which in turn greatly boosts liquidity and long-term financial outcomes (Yosa et al., 2024). Despite this, challenges continue. According to Brian et al. (2026), many SACCOs in Uganda are unable to adopt appropriate governance arrangements due to limited capacity, political intervention, and insufficient regulatory enforcement, making board effectiveness an underappreciated component in sustainability.

2.3 Transparency

Transparency refers to providing relevant and accessible information to the public, allowing stakeholders to evaluate performance and use public resources fairly (Rizki Inmas Pratiwi et al., 2024). Transparency has been studied in different phenomena, for example, in supply chain management, where the results were significant and can relate to SACCO financial sustainability while ensuring transparency. Accordingly, Karpun, et al., (2025), their study identified transparency as a major enabler of sustainable supply chain practices, presenting a six-dimensional framework that includes traceability, transaction, impact, policy and commitment, activity, and effectiveness information. A lack of transparency in corporations has serious consequences, including abusive market practices, financial and moral harm to stakeholders, the erosion of free competition, and systemic corporate scandals like Enron and Postabank, in which hidden losses and creative accounting ultimately misled investors and shareholders (Szalay, 2019). For such consequences, (UMRA, 2024), a regulatory body reinforce the need for SACCO fund misappropriation, emphasizing that lack of transparency and discrimination lead to project failure and legal consequences.

2.4 Financial sustainability

The study by Simaite et al., (2023) defined financial sustainability as the ability to create value for owners and ensure the continuity of operations in the long term, using an optimal combination of investment and financing sources. It also refers to the ability of institutions to cover their operating and financing costs, loan provisions, and capital expenditure from operating income. Ugandan SACCOs' financial sustainability remains tenuous, notwithstanding their development. According to data, while total registered SACCOs rose to over 31,800 by 2025, many suffer with asset quality and debt recovery (Wazalendo SACCO, 2026). For example, the Auditor General's audit found considerable undisbursed cash and low recovery rates under the Parish Development Model (PDM) (Brian et al. 2026). However, successful cases show that sustainability is possible. Wazalendo SACCO, a UPDF-focused organization, has increased its assets to UGX 1.4 trillion by 2026 through careful lending and diversification (Wazalendo SACCO, 2026). Conversely, Ikwera SACCO saw its loan portfolio collapse from UGX 169 million to UGX 62 million owing to repayment defaults, demonstrating the fragility of sustainability without appropriate risk management (https://ugandaradionetwork.net).

2.5 Hypothesis development

In the context of the flow of the study, it is hypothesized that:

H1: Board composition significantly influences the financial sustainability of SACCOs in Sheema District, Uganda.

H2: Transparency significantly affects the financial sustainability of SACCOs in Sheema District, Uganda

2.6 Savings and credit cooperative organizations

Savings and Credit Co-operative Organisations (SACCOs) are member-owned financial cooperatives founded on the principles of self-reliance, democracy, equality, equity, and solidarity, established by a group of individuals who have agreed to work together to promote their economic interests on an equal basis (Alio, 2025). SACCOs empower individuals and alleviate poverty through member-driven ownership, administration, resource mobilization, and low-cost loans without collateral (Shilimi, 2021). In Uganda, SACCOs have been viewed as accelerators of development appropriate finance channels to serve rural markets (Alio, 2025). However, the research findings revealed that traditional fraud patterns such as member collusion, embezzlement, and asset misappropriation coexist within SACCO operations (Ampumuza et al., 2026). Furthermore, the study by Ampumuza et al., (2026) also revealed that strategic management practices have a positive and statistically significant relationship with the financial performance of the SACCOs.

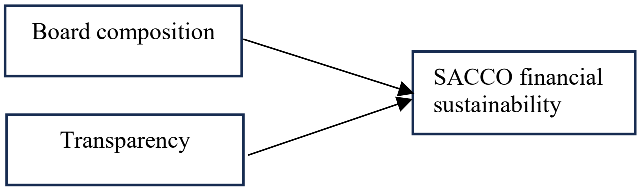

Figure 1 Conceptual framework

3. RESEARCH METHOD

3.1 Research Philosophy

This study adopted a post-positivist research philosophy, which posits that while an objective reality exists, it can only be known imperfectly due to inherent human limitations. This approach is justified given that the study investigates hypothesized, measurable, and quantifiable relationships between board composition, transparency, and financial sustainability through statistical methods. Pure positivism was deemed unsuitable because complete objectivity is inherently unattainable in social science research involving human subjects. Similarly, interpretivism was not employed, as the study does not aim to understand multiple subjective realities or socially constructed meanings.

This study employed a quantitative cross-sectional design to examine the relationships among board composition, transparency, and financial sustainability of SACCOs in Sheema District, Uganda. Stratified random sampling, based on SACCO size and member role, yielded 298 usable responses from 350 distributed questionnaires, representing an 85.1% response rate. Board composition (8 items), transparency (6 items), and financial sustainability (7 items) were measured using a five-point Likert scale. Pilot testing ($n = 30$) confirmed item clarity. Data were collected over a six-week period using both physical and online methods. Harman's single-factor test ($34.2\% < 50\%$) indicated that common method bias was not a significant concern. SmartPLS 4.0 was used, following a two-step approach (Anderson & Gerbing, 1988). The measurement model met established thresholds for reliability (Cronbach's $\alpha > 0.83$), convergent validity ($AVE > 0.66$), and discriminant validity ($HTMT < 0.85$). The structural model was then assessed for path coefficients, R^2, f^2, and Q^2 using 5,000 bootstrap subsamples. Financial sustainability was measured through respondents 'perceptions using a five-point Likert-scale questionnaire covering liquidity, capital adequacy and operating costs.

4. RESULTS AND DISCUSSIONS

This section focuses on analyzing and interpreting the study's data. Data analysis required breaking obtained data into distinct groups and categorizing them for examination. The decoding method was eventually completed after an interpretation analysis. The results were analyzed using integrated and significant broad references and findings.

4.1 Demographic Profile of Respondents and Frequencies

This section shows the analysis and interpretation of data gathered from 298 respondents via the questionnaire. The researcher addressed each set of responders individually. Table 1 shows the demographic data collected and the frequency distribution of responses between and among the various SACCOs categories under consideration.

Table 1, illustrates that out of 298 SACCOs respondents, males outscored females at a total of 162 (52%) and 136 (46%) respectively. Considering age, respondents between 30 and 39 were the highest to participate in the study. Their responses were 151 (52%), followed by respondents between 40 and above, totalling 103 (35%), and the smallest number of respondents between 20- 39 obtained a total of 44 (15%). The table further indicates that, from a marital status point of view, the majority were married; Their total number was 233 (78%), followed by singles 56 (19%), and divorced respondents were 9 in total (3%). While respondents with the highest level of education were degree holders with a total of 97 (33%), followed by certificate and diploma holders, 75 (25%) and 74 (25%) respectively. The least response was obtained at the advanced level, with below 52 responses (17%). The table also shows the number of years SACCOs have spent in operation since establishment; the highest responses obtained were SACCOs between 10 and 19 years, with 129 (43%), followed by 9 years at 103 (35%) responses. The SACCOs that spent over 20 years and above recorded 67 responses (22%).

Table 1: Demographic Profile of Respondents and Frequencies

Variable	Particulars	Frequency (n=298)	Percentage (100%)
Gender	Male	162	54
	Female	136	46
Age	20 – 29	44	15
	30 – 39	151	52
	40 or above	103	35
Marital status	Single	56	19
	Married	233	78
	Divorce	9	3
Education level	Degree or above	97	33
	Diploma	74	25
	Certificate	75	25
	Advanced level or below	52	17
SACCO years in operation	9 or below	103	35
	10-19	129	43
	20 or above	67	22

Source: Primary Data

4.2 Assessment of Measurement Model

Assessing the measurement model entails looking at the internal consistency reliability of construct variables, validating them, and establishing the number of dimensions per construct. This study used the PLS-SEM to depict the modeling path. Figure 1 below depicts the model path, which consists of board composition, transparency (independent variable) on the left side, and SACCO financial sustainability (dependent variable) on the right side, and provides a visual inspection of the model's assessment, which is also similar to the theoretical framework of the study.

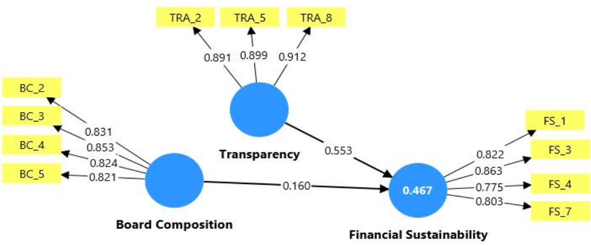

Figure 1: Structural Model Path of PLS-SEM

For reliability and validity, Cronbach's Alpha, a traditional measure, was used to analyze internal consistency of reliability, which reflects how closely a set of indicators is related as a whole (Joseph F. Hair et al,, 2021). It evaluates the degree to which the items measuring a construct are linked with one another. The satisfactory internal consistency is indicated by Cronbach's Alpha values of 0.7 or above. However, it's also suggested that the Alpha value should not exceed 0.90 (Adeniran, 2025). Composite Reliability (CR) measures internal consistency reliability. Unlike Cronbach's Alpha, it prioritizes indicators based on their individual dependability, rather than assuming equal indicator loadings (Aguirre-Urreta et al., 2013). Accordingly, the Cutoffs of 0.70, 0.80, or higher indicate appropriate composite reliability (Aguirre-Urreta et al., 2013). For AVE, it's defined as a measure of the amount of variance that is captured by a construct in relation to the amount of variance due to measurement error (dos Santos & Cirillo, 2023). The acceptable value of AVE is close to 0.5 to validate the construct. This means the construct explains the acceptable variance of its indicator (dos Santos & Cirillo, 2023). Table 2 below shows the reliability and validity of the constructs.

Table 2: Reliability and Convergent Validity

	Cronbach's alpha	Composite reliability	Average variance extracted (AVE)
Board Composition	0.853	0.856	0.693
Financial Sustainability	0.836	0.861	0.666
Transparency	0.884	0.891	0.811

Source: Primary data

As demonstrated in Table 2, all latent constructs met the thresholds for Cronbach's alpha, composite reliability, and average variance extracted. This signifies that the study met the criteria for reliability and validity.

4.3 Multicollinearity Assessment

Variance inflation factor (VIF) was assessed to detect multicollinearity among independent variables. In other words, the VIF is used to quantify the severity of multicollinearity in least squares regression (Akinwande et al., 2015). According to Hair et al. (2011), a VIF less than 5 has no serious multicollinearity. In the same light, Mason & Perreault (1991) stress that a VIF less than 3 has an acceptable level of multicollinearity. Table 3 below illustrates the results of the study.

Table 3: VIF Results of the Study

Coefficients				
Model		Collinearity Statistics		
		Tolerance	VIF	Decision
1	Transparency	.433	2.309	Acceptable
	Board Composition	.433	2.309	Acceptable
a. Dependent Variable: Financial Sustainability				

Source: primary data

Table 3 demonstrates that VIF = 2.309 values for both board composition and transparency represent no significant multicollinearity. Because VIFs are significantly below both the criteria of 5 (Hair et al., 2011) and the acceptable threshold of 3 (Mason & Perreault, 1991).

4.4 Discriminant Validity

According to the study by Rönkkö & Cho, (2022) defines discriminant validity as the degree to which the absolute value of the correlation between the two constructs differs from one. The study maintains that evidence of discriminant validity exists if other constructs do not correlate strongly enough with the construct of interest to suggest that they measure the same construct. According to Cheung et al., (2024): Lim, (2024) revealed that researchers have recommended numerous threshold levels. For example, a criterion of 0.9 was proposed. Others proposed that a correlation of 0.8 or greater indicates discriminant validity variations. In addition, a correlation of 0.75 indicates no discriminant validity variations, while 0.9 indicates discriminant validity issues. Accordingly, Table 4 below illustrates the discriminant validity results of the study.

Table 4: Discriminant Validity Findings of the Study.

	Board Composition	Financial Sustainability	Transparency
Board Composition	0.832		
Financial Sustainability	0.582	0.816	
Transparency	0.763	0.675	0.900

Source: Primary data

From Table 4 above, as literature earlier suggested, the correlations below 0.8 and 0.9 indicate acceptable discriminant validity. A correlation of 0.816 indicates this theoretical relationship. On the other hand, the correlation of 0.675 falls well within all recommended limits, demonstrating excellent discriminant validity between transparency and financial sustainability of SACCOs. While they are positively connected (as predicted), they are nonetheless empirically different notions.

Table 5: Reliability and Convergent Validity

	HTMT Ratio	Interpretation

Board Composition - Financial Sustainability	0.684	Acceptable (<0.85)
Transparency-Financial Sustainability	0.791	Acceptable (<0.85)
Board Composition-Transparency	0.832	Acceptable (<0.85 but close

Source: Primary data

4.5 R-Square Results

R2 is universally interpreted as the proportion or percent of the variation in the dependent variable that is explained or predicted by the independent variables (Gao, 2024). Table 6 below shows the R-squared results of the study.

Table 6: R-squared results of the study.

	R-square	R-square adjusted
Financial Sustainability	0.467	0.463

Source: Primary data

Table 6 above shows that board composition and transparency together account for 46.7% of the variation in SACCO financial sustainability. The remaining variation (53.3%) is explained by factors other than those included in the model.

4.7 Effect Sizes (f^2)

The practical significance of each predictor is indicated by its effect size (f^2). Transparency ($f^2 = 0.48$) demonstrates a large effect on financial sustainability, while board composition ($f^2 = 0.03$) shows only a small effect (Cohen, 1988). Consequently, transparency appears substantially more influential than board composition in explaining financial sustainability outcomes.

Table 7: Path coefficients of the study.

Construct	f^2	Interpretation
Board Composition	0.03	small
Transparency	0.48	Large

Source: Primary data

4.7 Path Coefficients

According to (Mohamed et al., 2018) defines path coefficient as a statistical measure that quantifies the relationship between two latent variables in a structural model. The study maintains that it is used to test hypotheses by determining the magnitude (strength) and statistical significance of the relationship between latent variables. Further, Majumder & Maheshwarappa, (2023) adds that the probability value (p-value) is used in hypothesis testing to assist in determining if the null hypothesis should be rejected. The statistical significance of the p-value is expressed as $P < 0.05$, which most people interpret (Andrade, 2019). Table 8 below illustrates the path coefficients of the study.

Table 8: Path coefficients of the study.

	Coefficient	Standard deviation	T statistics	P values	Decision
Board Composition -> Financial Sustainability	0.160	0.070	2.297	0.022	Significant
Transparency -> Financial Sustainability	0.553	0.065	8.512	0.000	Significant

Source: Primary data

The path analysis in Table 8 shows that board composition has a significant positive relationship, which was achieved at ($\beta = 0.160$, t-statistic = 0.022, and p = 0.022). The results support the hypothesis (H1) and imply that board composition is the most important governance strategy for guaranteeing the financial sustainability of SACCOs in Sheema District. On the other hand, transparency also has a significant relationship with SACCO financial sustainability, which was achieved at ($\beta = 0.553$, t-statistic = 8.512, and $p < 0.000$). This also supports the second hypothesis (H2). Therefore, SACCO leaders should stress transparent financial reporting, open communication with members, and strong accountability structures as critical strategies for improving financial sustainability.

5. Discussion of Findings

This study examined the influence of board composition and transparency on the financial sustainability of SACCOs in Sheema District, Uganda. The findings indicate that both governance mechanisms positively influence financial sustainability; however, transparency demonstrates a significantly stronger effect ($\beta = 0.553$) compared to board composition ($\beta = 0.160$). This section discusses these findings in relation to prior literature, agency theory, and the rural Ugandan context.

5.1 Board Composition and Financial Sustainability

Board composition positively influences financial sustainability (β = 0.160, p = 0.022), a finding consistent with prior research in Uganda. Namuli (2019) found that board characteristics accounted for 52.1% of the variance in SACCO financial sustainability. Similarly, Yosa et al. (2024) demonstrated that board capital positively correlates with board role performance, which in turn enhances liquidity and long-term financial outcomes.

Despite this positive influence, the relatively modest effect size ($f^2 = 0.03$) suggests that board composition, in isolation, may not be a robust predictor of financial sustainability within Sheema District. This aligns with observations by Brian et al. (2025), who highlighted that many Ugandan SACCOs encounter challenges in implementing effective board governance, attributable to factors such as limited capacity, political interference, and inadequate regulatory enforcement. In rural contexts like Sheema, characterized by agricultural dependency and low financial literacy, board members may lack the necessary expertise to effectively fulfill their oversight and strategic functions.

From an agency theory perspective, board composition serves as a monitoring mechanism to reduce information asymmetry between members (principals) and management (agents). However, the attenuated effect observed in this study suggests that the mere presence of a diverse or well-composed board may be insufficient. For board composition to effectively mitigate agency problems, it is imperative that board members demonstrate financial literacy, independence from political influence, and a genuine commitment to member welfare.

5.2 Transparency and Financial Sustainability

Transparency significantly and positively influences financial sustainability ($\beta = 0.553$, $p < 0.001$, $f^2 = 0.48$), a finding consistent with extant literature. Obaka et al. (2021) and Nkundabanyanga et al. (2023) reported similar findings in Ugandan SACCOs, demonstrating that transparency builds member trust, attracts deposits, and enhances financial stability. The substantial effect size indicates that transparency serves as the principal governance driver of financial sustainability within this context.

This finding aligns with agency theory predictions. Transparency reduces information asymmetry by making financial information accessible and understandable to members. When members can monitor management actions and financial performance, managerial opportunism is constrained, and accountability is enhanced. As Omara (2025) observed, financial transparency constitutes the bedrock of trust within any SACCO.

The pronounced effect of transparency may be particularly evident in Sheema District, owing to its rural context. In settings where members have limited alternative sources of financial information and low literacy levels, transparent reporting practices are especially valuable in building trust and encouraging continued participation. The exemplary performance of Police Exodus SACCO, attributed to its transparency practices (Africa Press, 2025), further supports this conclusion.

5.3 Theoretical Implications

This study offers three distinct contributions to agency theory. First, it demonstrates that in rural, low-literacy contexts, transparency more effectively mitigates information asymmetry than board composition alone, suggesting that agency theory should place greater emphasis on information disclosure mechanisms alongside traditional monitoring approaches. Second, the attenuated effect of board composition challenges the assumption of universal effectiveness for board monitoring, underscoring the critical importance of board competence and political independence as salient boundary conditions. Third, the study extends agency theory to the under-researched context of rural SACCOs, where agency problems may manifest distinctively compared to large corporations.

5.4 Practical Implications

For SACCO leaders, the findings establish a clear strategic priority: initial investment in transparency mechanisms, followed by board professionalization. Transparency mechanisms include regular financial reporting to members, open annual meetings, accessible financial statements, and leveraging mobile technology for updates. Board professionalization includes establishing minimum qualification standards, providing ongoing governance training, and implementing annual board performance evaluations.

For policymakers, the findings underscore the need to mandate minimum disclosure standards for SACCOs and support financial literacy programs for members. The Ministry of Trade, Industry, and Cooperatives should consider developing a SACCO governance scorecard to incentivize transparency practices.

For regulatory bodies such as Uganda Micro-Finance Regulatory Authority, the findings suggest that monitoring efforts should prioritize the enforcement of transparency standards, while also providing technical support to SACCOs for capacity building for their boards. A graduated compliance framework;offering guidance before penalties; would be particularly appropriate for rural SACCOs with limited resources.

6. Limitations and Future Research

Several limitations of this study warrant acknowledgment. First, the cross-sectional design captures relationships at a single time point, precluding causal inference. While the hypothesized

2026; 2-2 (2026)| pp:114-124

direction of effects is grounded in agency theory, longitudinal research is needed to establish causality. Future research should employ panel designs to track changes in board composition and transparency over time and their subsequent effects on financial sustainability.

Second, data collection from a single district (Sheema) limits generalizability to other Ugandan regions with varying governance contexts, economic activities, and regulatory environments. Comparative studies across multiple districts, including both rural and urban SACCOs, would enhance external validity.

Third, the study relied on self-report measures, which may be subject to social desirability bias. Respondents may have over-reported transparency practices or board competence. Future research should incorporate objective financial data (audited financial statements, loan repayment rates, capital adequacy ratios) alongside perceptual measures.

Fourth, the model explained 46.7% of the variance in financial sustainability, indicating that a substantial proportion (53.3%) remains unexplained by the current variables. Future research should investigate additional determinants, including member financial literacy, external economic shocks, political interference, internal risk management systems, and technology adoption.

Fifth, this study did not investigate potential mediating mechanisms. Future research could explore whether board role performance mediates the relationship between board composition and financial sustainability, as suggested by Yosa et al. (2024). Similarly, member trust may mediate the relationship between transparency and financial sustainability.

Sixth, the correlational design inherently precludes establishing causal directionality, meaning reverse causality cannot be definitively ruled out. It is plausible that financially sustainable SACCOs are better positioned to implement superior governance practices (attracting higher-quality board members, developing more sophisticated reporting systems) rather than governance solely driving sustainability. Future research using instrumental variable approaches or natural experiments would help establish causality.

7. Conclusion

This study investigated the influence of board composition and transparency on the financial sustainability of SACCOs in Sheema District, Uganda. The findings indicate that both governance mechanisms positively influence financial sustainability, with transparency demonstrating a significantly stronger effect ($\beta = 0.553$) compared to board composition ($\beta = 0.160$). Together, these mechanisms explain 46.7% of the variance in financial sustainability.

The study offers three principal contributions. Empirically, it provides evidence from Sheema District, a rural context previously underrepresented in SACCO governance research. The observed substantial effect of transparency ($f^2 = 0.48$) and modest effect of board composition ($f^2 = 0.03$) provide actionable guidance for prioritization. Theoretically, it extends agency theory by demonstrating that transparency more effectively mitigates information asymmetry than board composition alone, particularly in rural, low-literacy, and politically influenced environments. Practically, it provides an evidence-based prioritization: SACCO leaders should strategically invest first in transparency mechanisms (regular reporting, open meetings, mobile updates) and subsequently in board professionalization (qualification standards, training, performance evaluations).

The study concludes that transparency is not merely an optional practice; rather, it constitutes a fundamental pillar of member trust and institutional sustainability. When transparent reporting is combined with a competent and diverse board, SACCOs in Sheema District and across Uganda can significantly enhance their financial sustainability, ameliorate agency problems, and fulfill their mission of poverty alleviation and rural financial inclusion.

References

Alio, D. (2022). Perceptions of savings and credit cooperative societies (SACCOs) members towards credit utilization behavior in Soroti District, Eastern Uganda. African Journal of Rural Development, 9(4), 101–115. https://afjrdev.org/index.php/jos/article/view/100

Ampumuza, D., Katushabe, C., & Tamale, M. (2026). A systematic review and future directions for AI-driven detection of fraud patterns in SACCO transactions. Frontiers in Artificial Intelligence, 8. https://doi.org/10.3389/frai.2025.1690482

Auditor general exposes deep failures in Parish Development Model. (2026). Plus News. https://plusnews.ug/

Auditor general report on Parish Development Model. (2025). UG Bulletin. https://www.ugbulletin.co.ug/

Brian, S., Maina, E., Hamzah, N., & Abdusalamu, T. (2026). A review of related literature on board composition and financial sustainability of SACCOs in Uganda. Saudi Journal of Economics and Finance, 10(3), 79–85. https://doi.org/10.36348/sjef.2026.v10i03.002

Challenges facing cooperative financial institutions in compliance to corporate governance practices. (2015). The IJBM. www.theijbm.com

Damba, D. (2026). Why Uganda's SACCOs need a digital shift to serve the next generation. PML Daily. https://pmldaily.com/news/

Donadelli, M., Fasan, M., & Magnanelli, B. S. (2014). The agency problem, financial performance and corruption: Country, industry and firm level perspectives. European Management Review, 11(3–4), 259–272. https://doi.org/10.1111/emre.12038

Gwala, R. S., & Mashau, P. (2023). Tracing the evolution of agency theory in corporate governance. In Governance as a catalyst for public sector sustainability (pp. 260–285). IGI Global. https://doi.org/10.4018/978-1-6684-6966-8.ch013

Hair, J. F., Black, W. C., Babin, B. J., & Anderson, R. E. (2011). Multivariate data analysis. Cengage Learning.

Hendrastuti, R., & Harahap, R. F. (2023). Agency theory: Review of the theory and current research. Journal Akuntansi Aktual, 10(1), 85. https://doi.org/10.17977/um004v10i12023p085

Mason, C. H., & Perreault, W. D., Jr. (1991). Collinearity, power, and interpretation of multiple regression analysis. Journal of Marketing Research, 28(3), 268–280.

Namuli, A. (n.d.). Corporate governance and financial sustainability of savings and credit cooperatives (SACCOs) in Uganda: A case of the Hunger Project SACCOs.

Omara, G. (2026). Kole SACCO leaders trained on transparency, accountability, and financial growth. Daily Express Uganda. https://dailyexpress.co.ug/2026

Ongore, V. O., K'Obonyo, P. O., Ogutu, M., Bosire, E. M., & Juma, D. K. (2015). Board composition and financial performance: Empirical analysis of companies listed at the Nairobi Securities Exchange. International Journal of Economics and Financial Issues, 5(1), 23–43. www.econjournals.com

Pratiwi, R. I., Halimah, A., & Kusumawati, A. (2024). The influence of transparency, governance, and financial accountability in managing financial reporting in the public sector. International Journal of Educational and Life Sciences, 2(10), 1165–1180. https://doi.org/10.59890/ijels.v2i10.2571

Shilimi, M. C. (2021). Examining challenges leading to low integration of savings and credit co-operative societies (SACCOs) in national economies: A study of Zambia. Open Journal of Business and Management, 9(3), 1338–1366. https://doi.org/10.4236/ojbm.2021.93073

Simaite, G., & Keliuotyte-Staniuleniene, G. (n.d.). Financial sustainability and derivatives: A theoretical approach. Technium Science. www.techniumscience.com

Szalay, G. (2019). The impact of the lack of transparency on corporate governance: A practical example. Corporate Law and Governance Review, 1(2), 21–28. https://doi.org/10.22495/clgrv1i2p2

Transparency gains put Police Exodus SACCO among top performers. (2025). Africa Press. https://www.africa-press.net/uganda

Wazalendo SACCO assets hit UGX 1.4 trillion. (2026). Uganda Broadcasting Corporation. https://ubc.go.ug/

Yosa, F., Agabalinda, C., & Vilard Isoh, A. (2024). The mediating effects of board role performance in the relationship between board capital and survival of financial cooperatives in Uganda. SEISENSE Business Review, 4(1), 268–285. https://doi.org/10.33215/f49nrk77