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# A STUDY ON THE IMPACT OF CORPORATE GOVERNANCE ON THE FINANCIAL STABILITY OF SEVENTH-DAY ADVENTIST CHURCH EDUCATIONAL INSTITUTIONS IN TANZANIA

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**Article Info**

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**Abstract**

This study examines the impact of corporate governance on the financial stability of Seventh-day Adventist Church (SDAC) educational institutions in Tanzania. The study used a qualitative research design and collected data through a questionnaire from 60 respondents consisting of senior accountants, oldest serving teachers, second master/mistress, and academic masters from 15 secondary schools of the Northern Tanzania Union Conference of SDAC in Tanzania. The findings reveal that incompetence of administration at all levels, nepotism, poor customer care, misuse and theft of institutional money, and not acting upon audit reports contributed to the financial crisis of the SDAC educational institutions. Besides, the wrong treatment of employees who are the customer carers and inefficient boards were also identified as factors behind the financial instability. The study suggests that good corporate governance practices can improve the financial stability of church institutions and ensure efficient utilization of resources.

## Introduction:

Seventh-day Adventist Church (SDAC) educational institutions have contributed significantly to the education sector in Tanzania and East Africa. However, they have been experiencing financial difficulties since 2013. According to internal audit reports of these schools, accounts payables have grown from a few million before 2013 to the tune of 2.8 billion Tanzanian shillings, which is equivalent to 1.209 million USD. The financial crisis of these institutions has been attributed to a range of factors, including incompetence of administration at all levels, nepotism, poor customer care, misuse and theft of institutional money, and not acting upon audit reports contributed. Besides, the wrong treatment of employees who are the customer carers and inefficient boards were also identified as factors behind the financial instability.

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There is a growing need to examine the impact of corporate governance on the financial stability of SDAC educational institutions. Previous studies have focused on the impact of corporate governance on the performance of companies, but none have explored its impact on church institutions in Tanzania. This study seeks to fill this gap by examining how good corporate governance practices can improve the financial stability of SDAC educational institutions and ensure efficient utilization of resources. A qualitative research design was employed, and data were collected through a questionnaire from 60 respondents consisting of senior accountants, oldest serving teachers, second master/mistress, and academic masters from 15 secondary schools of the Northern Tanzania Union Conference of SDAC in Tanzania. The findings of this study have important implications for the management and governance of church educational institutions and can inform policy decisions targeting the improvement of the financial stability of these institutions.

## 1. Literature Review

### *2.1. The Concept of Corporate Governance*

Governance according to Beghetto and Karwowski (2018), is used in a complicated manner depending on where it is applied, however, governance is perfect and productive to the company when it takes care of the rights and respect of workers and adheres to the law governing the operations of the organization. Referring to Azam (2022) in the financial context, good governance looks at economic improvement. Good corporate governance is further defined as the capacity, efficiency, and effectiveness of the company in performing its day-to-day activities (Johnston, 2017). On the other side, churches focus more on human rights (Johnston, 2017). The author considers good performance as a reflection of good corporate governance. In the church context, good corporate governance must combine the physical and spiritual elements to ensure wholistic growth (Sarah, 2017).

While talking about physical and spiritual growth as the way churches should be led, the physical element which should consider the church's economic growth is but down looked and to some churches, this could be the reason why their institutions are not performing well economically. The economic approach as revealed by Azam (2022) can be of help to improve church subsidiary institutions financially. Mande (2018) considers corporate governance as the relationship among various players in finding out the direction and performance of business companies. The primary players are the board of directors, shareholders, and the institutions' management. Mande further relates corporate governance with the secondary players which include the community, suppliers, debtors, and workers. This approach considers the employment of effective boards and structures to ensure the resources owned by these institutions are effectively and efficiently used to meet the needs of these institutions (Azam, 2022). While not pushing aside the physical and the spiritual elements in governing the church institutions, this paper considers the creative learning approach in investigating how corporate governance influences the SDAC educational institutions' financial situation.

Awuku-Gyampoh and Asare (2019) study assessed the impact of good governance, church management, and structure on growth and the development of the church and found that to improve the growth and development of the church institutions, corporate governance should be involved in the planning of the strategies considering vision, mission, and values of a particular church.

Additionally, Goodchild (2016) suggests that good corporate governance ensures the financial stability of church institutions. The author suggests that with good governance, there will be no misconduct or misuse of the church's finances. Achim, Borlea, and Mare (2016) add to Goodchild's contending that good corporate governance is what helps companies to perform well. The results of these two papers are replicated in the study by Bocean and Barbu (2007) and Khatab, Masood, Zaman, Saleem, and Saeed (2011) suggest that without good corporate governance, companies will never perform well.

The findings of the empirical literature reviewed are mixed and mainly follow a quantitative research approach. For instance, other studies have revealed companies with good corporate governance perform well (Achim et al., 2016; Aggarwal, 2013; Ahmed & Hamdan, 2015; Ahmed Sheikh, Wang, & Khan, 2013; Ali, 2018; Bocean & Barbu, 2007; Mishra & Mohanty, 2014; Vintila, Paunescu, & Gherghina, 2015), and others have revealed corporate governance having a negative effect on company performance (Husemann, 2006) while other scholarly literature has revealed a weak relationship between corporate governance in terms of board independence and company performance (Zabri, Ahmad, & Wah, 2016). This implies that one of the components of corporate governance which is the independence of the board in decision making does not influence company performance in Malaysia. Furthermore, other studies have revealed corporate governance in terms of policies and financial instability, challenges of staffing and students' enrolment negatively influences the performance of church institutions in Zimbabwe (Nyarugwe, Rudhumbu, Chinhara, & Kurebwa, 2021).

The study by Kyere and Ausloos (2021) revealed negative and positive results between corporate governance and company performance which may not be generalized elsewhere and calls for further studies.

However, the reviewed studies have concentrated quantitatively on the impact of corporate governance on company performance using secondary data save three research papers done Nigeria, Uganda and South Africa that considered the influence of corporate governance on church institutions. This research paper intends to find out the influence of corporate governance on the financial situation of SDAC educational institutions in Tanzania.

## 2. Methodology

This study adopted a qualitative research design where a questionnaire of ten questions was used to gather information from a total of 60 respondents, four from each of the audited fifteen secondary schools of the Northern Tanzania Union Conference of SDAC in Tanzania. The study used frequency statistics employing SPSS version 26 to do the analysis. Corporate governance was represented by the ten statements on the questionnaire which needed the response from the employees. The study used purposive sampling technic to collect information form the fifteen institutions.

The questionnaire was supplied to four respondents of each secondary school namely Senior Accountant, Oldest serving teacher, second master/mistress and academic master who are not appointed by conference executive committee but by school board. The oldest serving teacher and the senior accountant were not members of the board but with managerial positions and we believed that they would give unbiased information. Likewise, the other two who are board members were believed to give unbiased information having experience what happens in their boards. Confidentiality was highly observed for their safety.

**Table 1.** Gender of respondents.

| Gender | Response | Percent | Cumulative percent |
|---|---|---|---|
| Male | 45 | 75.0 | 75.0 |
| Female | 15 | 25.0 | 100.0 |
| Total | 60 | 100.0 | 100 |

## 3. Results and Analysis

Table 1 above shows that out of the 60 respondents, male were 45 (75%) and only 15(25%) were female.

**Table 2.** Education of respondents.

| Education | Response | Percent | Cumulative percent |
|---|---|---|---|
| Diploma | 32 | 53.3 | 53.3 |
| Bachelor | 23 | 38.3 | 91.7 |

| | | | |
|---|---|---|---|
| Masters | 5 | 8.3 | 100.0 |
| Total | 60 | 100.0 | 100 |

Table 2 above shows that diploma holders were 32, 23 had bachelor's degrees and only 5 hold master's degrees. The table further indicates that many leaders in these institutions hold diploma and bachelor's degrees.

**Table 3.** Reliability statistics.

| Cronbach's alpha | N of items |
|---|---|
| 0.912 | 12 |

A general accepted rule is that Cronbach' alpha of 0.6-0.7 indicates an acceptable level of reliability, and 0.8 or greater indicates a very good level (Hulin, Netemeyer, & Cudeck, 2001). The results in Table 3 above indicates a Cronbach's Alpha of 0.912 which is the best and therefore the tool used to collect the data is reliable and the data seems to have no problem to be used for the analysis. The following ten frequency tables show analysis results of the sixty respondents' answers to the ten questions sent to the online.

**Table 4.** The financial crisis that the church educational institutions faced between 2013 and 2021 are caused by administration incompetence at all levels.

| Statement | Response | Percent | Cumulative percent |
|---|---|---|---|
| Strongly agree | 34 | 56.7 | 56.7 |
| Agree | 20 | 33.3 | 90.0 |
| Neither agree nor disagree | 2 | 3.3 | 93.3 |
| Disagree | 4 | 6.7 | 100.0 |
| Total | 60 | 100.0 | 100 |

Examining the results in Table 4 above, 90% (N=54) agree to the statement that the financial crisis faced by the educational institutions of the SDAC in Tanzania are caused by the incompetence of administration at all levels. It is only 6.7% (N=4) of the respondents who disagreed to the statement and 3.3% (2) of the respondents who did not know what to answer.

**Table 5.** The financial crisis that the church educational institutions faced between 2013 and 2021 is caused by the institutions' administration's incompetence.

| Statement | Response | Percent | Cumulative percent |
|---|---|---|---|
| Strongly agree | 41 | 68.3 | 68.3 |
| Agree | 9 | 15.0 | 83.3 |
| Neither agree nor disagree | 5 | 8.3 | 91.7 |
| Disagree | 5 | 8.3 | 100.0 |
| Total | 60 | 100.0 | 100 |

Looking at the results in Table 5 above, we find that 83.3% (N=50) of the respondents agree to the statement that the financial crisis that the church educational institutions faced between the mentioned period were caused by the local institutions' administration incompetence. However, 8.3% (N=5) did not agree to the statement.

**Table 6.** The financial crisis that the church educational institutions faced between 2013 and 2021 are caused by nepotism.

| Statement | Response | Percent | Cumulative percent |
|---|---|---|---|
| Strongly agree | 31 | 51.7 | 51.7 |
| Agree | 13 | 21.7 | 73.3 |
| Neither agree nor disagree | 9 | 15.0 | 88.3 |
| Disagree | 3 | 5.0 | 93.3 |
| Strongly disagree | 4 | 6.7 | 100.0 |
| Total | 60 | 100.0 | 100 |

The results in Table 6 above reveals 73,3% (N=44) agree to the statement that the financial crisis that the church educational institutions faced in the period mentioned were also caused by nepotism while 11.7% (N=7) disagreed to the statement and 15% (N=9) did not know what to answer.

**Table 7.** The financial crisis that the church educational institutions faced between 2013 and 2021 are caused by poor customer care.

| Statement | Response | Percent | Cumulative percent |
|---|---|---|---|
| Strongly agree | 29 | 48.3 | 48.3 |
| Agree | 14 | 23.3 | 71.7 |
| Neither agree nor disagree | 11 | 18.3 | 90.0 |
| Disagree | 6 | 10.0 | 100.0 |
| Total | 60 | 100.0 | 100 |

The findings in Table 7 above indicate that the financial crisis faced these church educations institutions in the mentioned period were also caused by poor services to the customers as shown by 71.7% (N=43) of the respondents. 10% (N=6) of respondents disagreed to the statement and 18.3% (N=11) had no side on the statement.

**Table 8.** The financial crisis that the church educational institutions faced between 2013 and 2021 are caused by misuse and theft of institutional money and auditing reports not acted upon.

| Statement | Response | Percent | Cumulative percent |
|---|---|---|---|
| Strongly agree | 31 | 51.7 | 51.7 |
| Agree | 20 | 33.3 | 85.0 |
| Neither agree nor disagree | 3 | 5.0 | 90.0 |
| Disagree | 6 | 10.0 | 100.0 |
| Total | 60 | 100.0 | 100 |

According to the results in Table 8 above, the financial crisis that was faced by the church educational institutions in the period mentioned were also caused by theft, misuse of institutional money and not acting upon the audit reports. This is indicated by 85% (N=51) of the respondents. 5% (N=3) were neutral and only 10% (N=6) of the respondents disagreed to the statement.

**Table 9.** The financial crisis that the church educational institutions faced between 2013 and 2021 is caused by the wrong treatment of employees who are really customer carers.

| Statement | Response | Percent | Cumulative percent |
|---|---|---|---|
| Strongly agree | 31 | 51.7 | 51.7 |
| Agree | 19 | 31.7 | 83.3 |
| Neither agree nor disagree | 3 | 5.0 | 88.3 |
| Disagree | 6 | 10.0 | 98.3 |
| Strongly disagree | 1 | 1.7 | 100.0 |
| Total | 60 | 100.0 | 100 |

According to the results of Table 9, 83.3% (N=50) of the respondents indicated that the financial crisis that the church educational institutions faced between 2013 and 2021 are caused by the wrong treatment of employees who are really the customer carers. Only 11.7% (N=7) who disagreed with the statement.

**Table 10.** The financial crisis that the church educational institutions faced between 2013 and 2021 are caused by inefficient boards.

| Statement | Response | Percent | Cumulative percent |
|---|---|---|---|
| Strongly agree | 2 | 3.3 | 3.3 |
| Agree | 41 | 68.3 | 71.7 |
| Neither agree nor disagree | 10 | 16.7 | 88.3 |
| Disagree | 6 | 10.0 | 98.3 |
| Strongly disagree | 1 | 1.7 | 100.0 |
| Total | 60 | 100.0 | 100 |

Based on the results in Table 10 above, 71.7% (N=43) agree with the statement that these educational institutions suffered financial problems partly due to inefficient boards while 11.7% (N=7) disagreeing with the statement. 16.7% (N=10) did not have side on the statement.

**Table 11.** The financial crisis that the church educational institutions faced between 2013 and 2021 was partly caused by unprofessional board members that gave poor governance.

| Statement | Response | Percent | Cumulative percent |
|---|---|---|---|
| Strongly agree | 13 | 21.7 | 21.7 |
| Agree | 29 | 48.3 | 70.0 |
| Neither agree nor disagree | 12 | 20.0 | 90.0 |
| Disagree | 5 | 8.3 | 98.3 |
| Strongly disagree | 1 | 1.7 | 100.0 |

| | | | |
|---|---|---|---|
| Total | 60 | 100.0 | 100 |

Based on the results of Table 11 above, 70% (N=42) of respondents indicate that boards that govern these institutions are not professional while 20% (N=12) do not know if the boards are unprofessional or professional. On the other side, it is only 10% (N=6) of the respondents who disagreed with the statement and who think that the boards are professional.

**Table 12.** The financial crisis that the church educational institutions faced between 2013 and 2021 was caused by poor services and poor infrastructure.

| **Statement** | **Response** | **Percent** | **Cumulative percent** |
|---|---|---|---|
| Strongly agree | 1 | 1.7 | 1.7 |
| Agree | 39 | 65.0 | 66.7 |
| Neither agree nor disagree | 15 | 25.0 | 91.7 |
| Disagree | 5 | 8.3 | 100.0 |
| Total | 60 | 100.0 | 100 |

Referring to the results in Table 12 above and combining those who strongly agreed to the statement and those who just agreed, we notice that 66.7% (N=40) indicated that these educational institutions have poor services to their customers and also do have poor infrastructure. Only 8.3% (N=5) disagreed with the statement. 5 employees see the institutions have good infrastructure and good customer's services.

**Table 13.** The financial crisis that the church educational institutions faced between 2013 and 2021 is caused by the improvement of the government educational institutions giving the same services which took customers from our schools.

| **Statement** | **Response** | **Percent** | **Cumulative percent** |
|---|---|---|---|
| Strongly agree | 29 | 48.3 | 48.3 |
| Agree | 17 | 28.3 | 76.7 |
| Neither agree nor disagree | 9 | 15.0 | 91.7 |
| Disagree | 4 | 6.7 | 98.3 |
| Strongly disagree | 1 | 1.7 | 100.0 |
| Total | 60 | 100.0 | 100 |

Furthermore, based on the results in Table 13 above, 76.7% (N=46) of the respondents agree that due to the improvement of government schools attracted more customers to join them than joining the Adventist schools while 8.4% (N=5) of the respondents think that the improvement did not bring the situation stated and 15% (N=9) did not have a specific answer to the statement.

## 4. Discussion of the Findings

When we refer to all tables that represent the ten statements on the questionnaire, the larger part of the respondents agreed with all the statements. Taking the average of all positive responses which is 70% (N=42) of the respondents, the indication is that the institutions under investigation in this study faced a financial crisis due to administration incompetence at all levels, boards that are inefficient, and which are composed of unprofessional members. Additionally, the crisis was also caused by the challenge of nepotism where, those in power, use their position to favour relatives or friends in giving appointments or employment even if they are not able to deliver. The responses seem to portray a true picture because the boards are chaired by bishops or their assistants from Conferences' headquarters or Unions depending on who governs the subsidiary institution in question. Heads of these institutions are not appointed by respective boards but by Executive committees which are chaired by the same bishops.

Furthermore, the crisis that these institutions faced in the period mentioned in reference to the findings, was also caused by these institutions' practices of poor customer care, and the improvement of the government secondary schools which also give free education from standard one to form four. This implies that the low registration of students that these institutions experienced between 2015 and 2021 was caused by the transfer of students to free education services by the government of Tanzania.

Likewise, referring to the results section of this study, we notice that the management of these institutions did not make use of audit reports which show misuse of funds and embezzlement on a large scale as indicated by the audit reports of Chome and Parane Secondary schools under the leadership of Northeast Tanzania Conference and the financial statements of other secondary schools under other conferences. Mistreatment of employees is another issue that the respondents indicated to be one of the reasons why these institutions faced financial crises within the mentioned period. This is one of the reasons why the debt of all these institutions rose to the tune of 2.8 billion Tanzanian shillings. The analysis of the responses indicated the inefficient and unprofessional boards to be one of the reasons for the crisis. This means that board members being unprofessional do not question reports because they may not understand them or because of fear of losing the appointments. The findings of this study agree with the finding by Mande (2018) which clearly shows that the Anglican Church did not care about the qualities of the member but representation per interest. The findings of this study agree with the findings by Khatab et al. (2011) who suggested that with poor boards, companies will not perform well.

The results have also indicated that poor infrastructure and poor service are contributing factors to the crisis. This implies that some customers moved to inviting infrastructure and to those who care for their needs adding to the financial crisis of the institutions in question.

## 5. Conclusion

Referring to the findings of this study, we conclude that There is a weak administration at all levels meaning that those at the supervisory level are not doing their part well and those who are at the day-to-day administration of the institutions at the local level are also not efficient for the trust given to them and the boards have failed to make them accountable due to this relationship and the boards that do not have professional members to give professional and skilled guidance. We have further noted that nepotism is the practice whereby leaders' relatives and friends are given responsible positions even if they are not capable of delivering as they would be expected to. Not using audit reports to put controls over the loopholes, poor services, poor infrastructure, bad treatment of employees, and government improvement of the facilities that give the same services that the church schools give are the reasons that brought the financial crisis of these church's institutions.

## 6. Recommendation

We recommend that the church in Tanzania should make sure that they establish boards that are independent, professional, and not chaired by the archbishop or bishops of Unions and conferences that appoint their management. We further recommend that the church should stop exercising nepotism, should improve the institutions' infrastructure, be responsible to take decision on audit reports. Following these recommendations will contribute to reducing the financial crisis faced by these institutions.

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