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DEMUTUALIZATION OF COOPERATIVE BANK FOR SUSTAINABLE DEVELOPMENT: STRATEGIES AND INDICATORS

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ABSTRACT: The revitalize and emerging of the National cooperative bank of Tanzania during the year 2025 in financing cooperative societies and members against various challenges is subject to sustainability mechanism. The study examined demutualization of a Kilimanjaro regional cooperative bank to a national tier, known the National Cooperative Bank (NCB). Data collection engaged questionnaires from 54 sampled cooperative societies and 162 cooperative leaders. Exploratory factor analysis was employed to identify bank sustainability strategies. Indicators of outcome for sustainability was captured by using a binary multiple regression model. The findings explored that, with effective bank operational; inclusive management; adhere with Bank implementation process; these are strategies subjected to influence NCB sustainability. Externalities, financial crisis, and financial markets are indicators found to influence NCB sustainability. Lastly, prior to the NCB take-off, financial crisis mitigation and risk assessment strategies are recommended. Coops and policymakers are recommended to ensure Cooperative identity is maintained. Further, merging and acquisition perception by NCB, Non-cooperative shareholders is recommended for further study.

Keywords: Demutualization; Sustainable Cooperatives; Banks; Strategies; Indicators.

INTRODUCTION

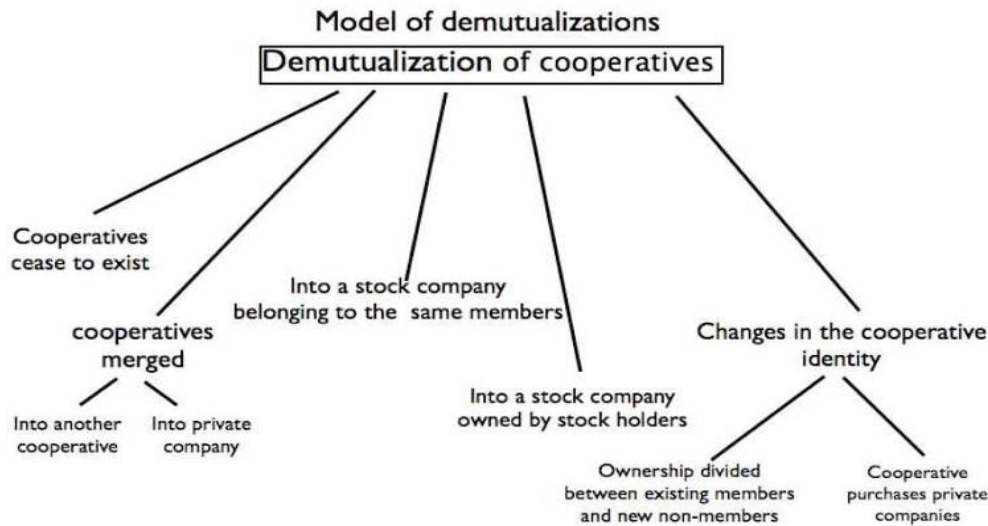
Globally, financial assurance has been a cancerous and misfortune lead to emerging of various financial market solution like community banks, credit unions and cooperative banks. Guided by co-operative principles, cooperative banks have undergone unique financial management based on open governance equal economic participation (Kleanthous et al., 2019). Cancerous and misfortune followed financial crisis of 2021 that left financial institutions on the choice of the best alternative. Yet, Cooperative Banks(CB) like any other commercial banks need preparedness of 2023 global recession (Guénette, Kose, and Sugawara 2022). In Europe, there are about 2 700 cooperative banks with 20% average market share, 40 000 outlets and 720 000 employees (EACB, 2021). Cooperative bank has suffered from almost five global economic recessions from 1970-2022, in 1975, 1982, 1991, 2009 and 2020 with decline of exchange rate of 1.9 - 3.9 percent. Existing as haven deposit, credit suppliers and maximising benefits to household and other firms, financial cooperatives kept supporting credit finance at household and individuals at the time of financial crisis but in the same time access in commercial banks at individuals were denied (Mckillop et al, 2020). To ensure sustainability and survival of these cooperatives under financial crisis, restructuring and transformation of cooperative banks are inevitable, demutualization. Akinsoyinu, (2017) without compelling the reasons, argued that Europe small banks like

cooperatives are vulnerable at present time than previous when it comes issue of great financial crisis. Demutualization is defined as transforming legally cooperative bank from mutual ownership structure to company owned by shareholders, whereas control rights and claims are rationally distributed to proprietor of the shareholders (Chaddad and Cook 2004). Demutualization contributed on capital accumulation lower transaction costs, alter members income, relaxed from financial crisis and other economic pressures (Mbugua & Waweru, 2020). This being the case, US experience few agricultural and marketing cooperatives transformed to publicly listed companies. In Cyprus, cooperative credit unions were demutualized by government with 99% shareholders belong to state, the governance was overturned and member controls were restricted by government officials (Kleanthous et al. 2019). In Kenya, demutualization found to have no significant influence on financial performance of cooperatives (Mbugua & Waweru, 2020). Unless, vertically intergraded followed by separation of patronage and ownership rights and control, the capital benefits and transaction cost of hybrid cooperatives is claimed to be higher than tradition cooperatives. Mckillop et al., (2020) narrated the disadvantages of traditional cooperative structure in managing cooperative banks compared to investor own firms (shareholder own banks). The disadvantages are ownership rights is not tradable and capital is not own by externals and its accumulation source is from profits. Other disadvantages are no discipline on market corporate ownership, and inadequate motivation to monitor and control their operations. As results to high agency cost caused by expenditure behaviour of board members and management. Despite studies (McAlevey et al., 2010; Ralston et al., 2001; Becchetti et al., 2016) mentioned there is a greater efficiency on merging between cooperative bank and commercial bank, others have said merging will results to lose of cooperative identity, reduced dividends and increased loan arrears (Mckillop et al. 2020). Little is known about the members understanding of the structure, management and perceptions of the new established National Co-operative Banks, members benefit and government action. Further, the Co-operative Act of 2013 remains silent on formation of National Co-operative bank as well as buying and selling of shares. Therefore, the question of cooperative bank sustainability and accountability remain a gap to unveil by the present study. The windblown of market forces and economic pressures towards tradition cooperative model has arguably by Mbugua & Waweru, (2020) can deplete cooperative spirits. More else cooperative principles may get lost in the process of structure relaxation and transformation. Instigating the cooperative identity, ownership and controlled my members, Kleanthous et al., (2019) analysed how each cooperative principles were negatively adhered and evident well after financial crisis of 2009. Empirical effect on practice declination of cooperative principles due to demutualization is evident from Cyprus. The state obtained 99 per cent shares of Co-operative Central Bank in 2013 and on 18 June 2018, sold it largest investor-owned local bank. Others include low member participation as coop matures and grow. As restructuring decision made during financial crisis affected members refrain from financial contributions due to trust issues, and previous financial losses. By 1962, Tanganyika experienced the launching of the Cooperative Bank of Tanganyika, and dissolved later 1964 on the union of Tanganyika and Zanzibar whence the National Cooperative Bank (NCB) was established under the National Co-operative and Development Bank Act, 1964 (Maghimbi, 2010; Sambuo 2023). On revitalization of Cooperative in Tanzania, In the year 1996, the Kilimanjaro Co-operative Bank Limited (KCBL) was found and registered as a cooperative while Cooperative and Rural Development Bank (1996) limited was registered as company. Since the reasons for

dissolution, merging and acquisition of these banks is beyond the scope of this study, for decades, efforts have been made to establish National Cooperative Bank. However with some financial and managerial challenges faced the Kilimanjaro Co-operative Bank Limited(KCBL) lead to steer up demutualization to form a Co-operative Bank of Tanzania (Sambuo, 2022). The aim is to increase services to members, stabilize financial crisis at household level. However, the ongoing effort of re-establishing CBT could have similar results of improved services provision, product cost control and increase financial stability like the merged credit unions in US, Australia, New Zealand, and UK (Mckillop et al. 2020). Members of credit unions and shareholders of KCBL in Tanzania still have less evidence on expected outcomes after the act of demutualization to National Co-operative Bank. The questions like; will the Bank be sustainable or it will follow a historical trend of dissolution of National Cooperative Bank (NCB), repeal and transition of Co-operative and Rural Development Bank in 1996? Yet, the co-operative identity after demutualization remains unanswered. Therefore, the present study aims to analyse demutualization of Cooperative in Tanzania particularly with Kilimanjaro Cooperative Bank Limited. Specifically, the focus was on examining indicators of National co-operative bank sustainability with considering how externalities (financial crisis, economic pressures, inflation, market shares, economic evolution of non-cooperatives), accountability of cooperative members, the cooperative identity(principles), internal force and transformation process on demutualization of cooperative banks.

REVIEWS OF LITERATURES

Theory of Institution Change explains organizational behaviour process and the reasons for a changing behaviour at a broad context (Bush, 1987). The theory put forward elements that are within the organization boundaries (closed system) and those elements that organisations are interact with on its environment (open system) (Guth, 2016).. The theory postulates that, institution undergoes structuration, a process initiated by agents, associated with reset of social structure and collective understanding of a common conducts to attain public legitimacy and sustainability (Guth,2016). In this theory if external organization of the same industry, in our focus is KCBL, facilitated adoptions of a certain practices is known as Coercive isomorphism. Weakness given by the theory on structuration is the separation of symbolic practices through ceremonially or superficially (Guth,2016). In support with this theory, the model of demutualization by Battilani & Schröter (2012) narrated that cooperative decision in organization structuration is not a demutualization but rather an innovation, thus considered any change that bring a new form of cooperative is demutualization.



Source: Battilani & Schröter (2012)

Therefore, the theory of Institution Change guided understanding the process of restructuring and transformation of KCBL to a Cooperative Bank of Tanzania which is a new form of cooperative (Battilani & Schröter,2012). The theory contributed on gathering sustainability indicators of KCBL transformation, the proposed Cooperative Bank accountability structure and engagement of the member in prospective management. Moreover, as the theory postulate the elements which interact with KCBL and the newly formed CBT on the environment (open system), were paramount. Thus, the present theory guided the assessment of externalities’ (financial crisis, economic pressures, inflation, market shares, economic evolution of non-cooperatives) on stability of cooperative bank. Hence forth in this theory termed as isomorphic pressures process.

Demutualization perspectives and experiences from cooperative banks: Demutualization is a process by which member-owned company, such as a co-operative, legally changes its structure to form a joint stock company owned by shareholders (Investor Own Business) (Galor,2008). Cooperative model like any other business model is also faced with financial crisis, market forces and global recession. Dynamic economic growth has also inquired further research on modelling cooperatives to meet market forces. Keep cooperatives operating locally, is a closed economic system that hinders future prosperity of its members and other beneficiaries. Dakota Growers Pasta Company (DGPC) began in 1994 as a locally owned, locally controlled co-operative, organised by and for local farmers. After demutualisation, became a multimillion-dollar multinational cooperative (Gray et al.,2014). There are several impetuses for demutualization of DGPC, among them are the use of discourse pushing privatising bent as solution to everyday problems, identifying demutualization motives (equity access, equity liquidity, cost of equity, and corporate acquisition) and members voted for conversion by 83 percent. However, the decision to conversion to investor own company was opposed as it contrary to cooperative principles, 1. Voluntary and open membership, 2. Collective action - democratic and member control (Gray et al., 2014). The approach of Demutualization of cooperatives is also treated as causative of division between ‘co-op values’ and ‘co-op business’ (Kleanthous, Paton, & Wilson, 2019).

This is because, cooperatives principles are well accepted but remains option in current business environment that coop model has to interact with. With distinction from other cooperatives, financial cooperatives have arguably less followed all the seven cooperative principles (Oczkowski et al, 2013). Thus, questioning accountability of the members and leaders. Differently, sustainability and accountability of co-op business with corporate identity is on building equity capital, using approach like non-redeemable member investor share, capital seeking strategy and non-vote shares. Following irresistible significant change from external forces to financial cooperative, and disregard with orderly principles, the means of legislative session were employed to provide protective shield of benefits to individual member (Wilson and MacLean 2012; Cook & Chaddad, 2004). Some states, Iowa, Minnesota in US adopted changes in law to authorize outside equity from cooperatives to facilitate financing of coop, others allow cooperatives to be formed by both patron and non-patron ownership rights. There is a big request for reform of legislation of institutional environment (Cook & Chaddad, 2004). A study in UK, indicated that, restructuring of Cooperatives bank UK is an attempt to acquire new generic identity of Bank industry and maintain that of cooperative movement. However, strategic management of corporate Bank is little understood. As a results, Cooperative Bank of UK undergoes several evolutions from Bank of the Cooperative Wholesale Society (CWS) as movement, later changed to National Bank identity for respectability as a real Bank, and decided to return to cooperative movement ideal after suffer from retailing section and complain of little co-operative and that is the bank name itself (Wilkinson & Balmer, 1996). The review of literatures informs the importance of maintain cooperative identity, modelling it to expands services from local to national level, through building of equity capital for its sustainability. There is a missing stance on literatures about sustainability approach, accountability of member/leaders on management prospects of cooperative banks, and environmental factors that could influence financial stability of cooperative banks.

Transformation and sustainability determinants in Cooperative Banks: Cooperative banks transformation towards sustainability is influenced by fair income distribution, economic democracy promotion, and de-commodification, aligning with context-based indicators and cooperative goals for sustainability benchmarks (Novković, S., Šimleša, D, 2023). According to Ferri, (2021), cooperative banks' sustainability is determined by their stakeholder model, relationship banking, and resistance to risky financial innovations, making them more resilient and effective in the long run. Meanwhile, sustainability of conventional banks is influenced by society's culture, profits and natural environment concerned but faced with millennials dominance and generations disinterest in cooperatives (Wibowo,2021). Venanzi, & Matteucci, (2022) on the study sustainable model of cooperative banking has found that sustainability of cooperative banks with more than 8 billion euros of assets have lower systematic and business risk, attained better asset quality, and more oriented to finance the local real economy. The pick for sustainability is well influenced by the approach of satisfying their customers (borrowers and depositors) rather than their shareholders. Another side of sustainability was on aids or assistance received by cooperatives argued by Moon, & Lee, (2020) indicating that duration of the organization development assistance (ODA) affects cooperatives' self-reliance, thus there should be established exist strategies up-keep operational performance of cooperatives. General overview on sustainability in business as reviewed literatures by Atz, *et al.*, (2023) indicated factors like environment, social and governance generate better financial performance with

asymmetric benefits during social and economic crisis. These factors confirmed during 2008 economic crisis and Covid 19 pandemic where, cooperative banks in Germany, Italy, have shown resilience and a countercyclical attitude in lending. The stability was due to strong membership base and good governance structure. With regard to financial markets, studies found capital added from demutualization caused reduction in the use of intermediaries include security market usage rather than bank among producers and consumers (Jain et al., 2024). The capital structure was also found to be influenced by shareholding members and diverse of financial products. Shareholding members were also operational management sensitive and governance of the banks. Thus studies recommended various steps for operation and governance.

METHODOLOGY

The study was conducted purposely from 54 cooperative societies located in five regions of Tanzania namely Kilimanjaro, Arusha, Kigoma, Pwani, and Dodoma. Data were collected from 162 leaders of the selected cooperatives. Selection of the regions aims to capture diversifications of cooperative by type, crops specific and geographical location.

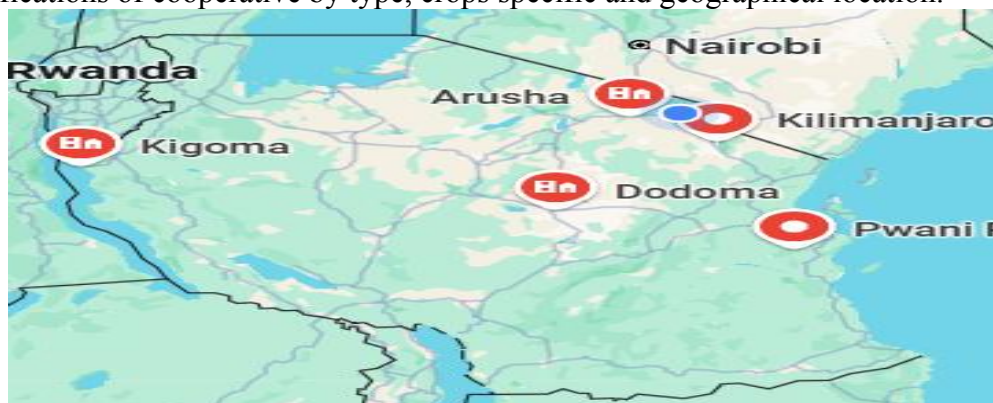


Figure 1. Map of Tanzania show selected region of the study

Randomly selection was employed to capture diversity and respondents' perceptions on the demutualization of KCBL from these regions and cooperative specific. The selection of Arusha was due to being the nearest operational area of KCBL, aiming to explore enough evidences, history and concern. Meanwhile Kilimanjaro is the founding region and the main office of KCBL. Pwani was selected to suffice information captured by members of coops in western region and eastern region selected was Kigoma. Dodoma was selected considering is the Headquarter of Tanzania Cooperative Development Commission whereas awareness of demutualization was expected to be high. The cross-sectional research design was the approach employed to collect data from selected co-operative members. With cooperatives societies located across the country, and the purpose of demutualization is expansion of KCBL to serve across the nation, a purposive sampling was employed to cater across geographical locations on information dissemination. The proportional sampling technique employed purposely for targeted three key leaders of the Cooperatives societies, Board member, Staff officer and any member of the identified cooperative societies. Thus ensure triangle structural of the cooperative governance fully participation in this study. Both quantitative and qualitative data were collected from secondary and primary sources of data. However, quantitative data were enriched by qualitative data as recommended by Wisdom

and Creswell (2013). Quantitative data were collected by enumeration of the cooperative members to gather information related to demutualization, national cooperative bank and its importance, factors influence transformation, accountability and sustainability. Both a questionnaire and an interview were used to gather primary data. The focus of the data collection tools was to explore issues of interest for clarifications based on co-operative sustainability and accountability of board members toward demutualization of Kilimanjaro co-operative bank. Questionnaire was used to collect quantitative data, but before its administration, a questionnaire was pre-tested to 8 randomly selected respondents (5% of total respondents) to identify and rectify unfamiliar terms used therein, checking for clarity or ambiguity of questions and duration of interviewing one person. The questionnaire was then improved accordingly before it was used for actual data collection. Ensuring the validity of data was essential to confirm that the research measures accurately captured the intended constructs and phenomena under investigation. Since the questionnaire constituted Likert scales questions, the Cronbach's alpha tests employed for reliability of Likert scale in a multiple-questions in examine analogous set of test items from items used in accountability; externalities; financial crisis; cooperative principles; financial markets; internal force; and demutualization. The tested Cronbach's alpha coefficient covered at acceptable value > 0.7 for all themes of the study. Further, the Kaiser-Meyer-Olkin (KMO) measure was employed to test if data suited for factor analysis. The proportion of variance of the measure was above 0.8 which is acceptable threshold value, indicate sampling was adequate. For normality distribution, Bartlett's test for homogeneity of variances for all samples was employed to test correlations between variables (Chi-Square, 226.164; Sig. 0.00) and found sufficiently large for factor analysis to be appropriate. In addition, key informant interview(KII) was conducted to individuals involved for this study, including cooperative boards, staffs, members, academicians, and employees of Tanzania Co-operative Development Commission (TCDC) and Servings and Credit Co-operative League of Tanzania (SCCULT), Cooperative Rural Development Bank (CRDB) Plc, Moshi Co-operative University (MoCU). Secondary data constituted documentary review of reports from co-operative union, published articles, Government of Tanzania, CRDB, KCBL, TCDC and SCULT.

Study analysis: Exploratory Factor Analysis (EFA) was used to uncover complex interrelationships among items of sustainability indicators of KCBL demutualization to National co-operative bank The construct of items were developed intended with the aim of grouping these items to form a unified concept or construct. The advantage of EFA, it allows the inclusion of many factors related to each other that underlying the structure of the main variable to be observed from the set of variables. This study employed six key items adopted from Nuanphromsakul et al., (2022) in measuring demutualization. Details are on Table 1 below.

Table 1. Items causing demutualization of KCBL

No	Items
1	Co-operative business model resilient in time of economic and financial crisis
2	Changing in political and economic environment towards financial and agricultural co-operatives
3	The support of co-operative legislation

4	KCBL has to grow to National level
5	Cost influence of regulatory compliance in traditional retail banking system
6	National Co-operative Bank will be practicable in future

Exploratory factor analysis of the index for each variable was created. The mean values for Sub-item score (Sbt_i) at a given level of Likert (L.L) scale was computed per number of sub-items to obtain construct index (Johnson & Creech, 1983; Norman, 2010; Sullivan & Artino, 2013; Zumbo & Zimmerman, 1993). The natural log was applied:

$$\overline{Sbt} = \frac{\sum Sbt}{L.L} \dots\dots\dots (i)$$

The main item (It_i) was then computed from observed (n) of the \overline{Sbt} and natural logarithm was used for transformation of (It_i) to continuous variable

$$It_i = \log_{10}\left(\frac{\sum \overline{Sbt}}{n}\right) \dots\dots\dots (ii)$$

The Items (It_i) were regressed from the multiple regression equation with demutualization as dependent variable. Details in equation (iii)

$$Demutualization = \alpha + \beta_1 It_1 + \beta_2 It_2 + \beta_3 It_3 + \dots + \beta_n It_n \dots\dots\dots (iii)$$

The independent variables(It) employed were accountability; externalities; financial crisis; cooperative principles; financial markets; internal force; transformation; accountability; and the dependent variable was demutualization. The dependent variable was measured as a binary variable, following decision either to demutualize or not. The regression model was investigated and the found covariance's between two variables, one was omitted. The Variance Inflating Factor was found to be less than 1.5 which is not enough to overly concern of presence of multicollinearity and coefficient of the selected variables are intensely estimated (Gujarat, 2003). To ensure consistency, 60% of the variables are continuous and their measurements were given in Table 2.

Table 2: Sustainability indicators for cooperative banks

Variables	Listed items for the measurements of the variables	
Demutualization	Change to majority shareholding	Dummy: Yes =1, No=0
Accountability (It_1)	Frequency of feedback and suggestions to foster open and transparent communication	Continuou s: Numerical
Externalities(It_2)	KCBL avoidance of demutualization	Dummy: Yes =1, No=0
Financial crisis (It_3)	Expected competition from other commercial banks during crisis	Dummy: Yes =1, No=0
Cooperative Principles (It_4)	Measured as percentage influence	Ratio scales

Financial markets (<i>It</i> ₅)	Number of financial service agents provide similar services	Continuou s: Numerical
Internal force (<i>It</i> ₆)	Diversity in Banking products	Continuou s: Numerical
Transformation(<i>It</i> ₇)	Number of members voted for transformation	Continuou s: Numerical

FINDINGS AND DISCUSSION

Cooperative bank shareholding structure versus other commercial banks: Towards demutualization, Table 3 provides a uniqueness in shares distribution of the Cooperative Bank of Tanzania shareholding structure compared with other commercial banks. The shareholding structure constituted 51% of majority shares owned by cooperatives and 49% minority shares altogether were owned by Government, CRDB plc, Individuals and Others. The majority of shares by cooperatives in CBT is instigating the ownership to cooperative societies while other selected commercial banks (Table, 3) have spatial distribution. Following the demutualization of KCBL to CBT, the CRDB plc owned 20% of CBT shareholding structure initially used for KCBL revival fund, mobilization of investor own shares and demutualization. ‘CRDB plc invested shares in KCBL to transform to CBT, a model action duplicated from DANIDA investment fund used to revitalize CDRB plc at time of crisis’ quoted from a CRDB staff responsible for revitalizing KCBL and the then demutualization to Cooperative Bank of Tanzania. In reference with resource dependence theory, and structural contingency theory this finding aligned well on organisation strategy towards adopting environmental changes for sustainable market performance (Guth,2016).

Table 3: Distribution of percent shares on some of the selected commercial banks

Bank Name	Name of Shareholders	Own percentage of shares
National Microfinance Bank(NMB) Plc	Cooperative Rabobank Nederland	34.9
	Government of Tanzania	31.78
	NICOL Tanzania	6.5
	Aunali and Rajabal	5
	Others	21.82

Cooperative Rural Development Bank(CRDB) Plc	DANIDA investment fund	21
	PSSF pension fund	13.3
	10 shareholders owned shares between 1 and 10	24.2
	28,000 shareholders own < 1	41.5
National Bank of Commerce(NBC)	Absa group	55
	Government	30
	Bank of Africa	15
Cooperative Bank of Tanzania (CBT)	Co-operative societies	51
	CRDB Plc	20
	Individuals& Others	19
	Government	10

Co-operative sustainability strategies for the National Cooperative Bank of Tanzania:

On analysis of cooperative sustainability strategies for the Cooperative Bank of Tanzania, the results from factor analysis showed that (i) lobbying and advocacy for the formation of national cooperative bank (ii) capital collection from members, (iii) membership sensitization, and (iv)organising meetings with interested members to buy shares were the strategies used to ensure sustainability of CBT. Knowing that most of the cooperative societies financial services are obtained from other commercial banks, management of Kilimanjaro Co-operative Bank planned to consider willingness of the capital diverse to CBT as member of cooperatives in Tanzania. These strategies are similar with those of demutualization of Italian cooperative bank, and the focus was to increase membership base, who can also have managed to raise capital through buying shares (Filomeni et al., 2023). The same results are similar with Jones and Kalmi (2015), Bank profitability from demutualization relies positively on membership base. Results from KII, it was discovered that strategy like using media and other platforms to reach audience by exploring benefits of investing in cooperative bank. It was also found that by applying to a special exemption of softening interest charges to Bank of Tanzania should differs other commercial banks. Using of Annual General meetings of various cooperatives and Regional Cooperative Education platforms was suggested as appropriate strategies for membership solidarity growth to revive the National Co-operative Bank. One of the strategies of upbringing awareness and positive attitude

towards sustainability of the NCB was found to be, an inclusion of permanent agenda of sustainability and accountability of NCB during annual, semi and quarterly meetings of cooperative societies in Tanzania. Since cooperative societies are the shareholders of 51%, it is necessary to have a permanent agenda on progress and opinions for the development of the NCB, including awareness creation to new members. Tanzania Co-operative Development Commission has taken a role of mobilization across the country. As part of demutualization efforts, regulation has passed that each SACCOS should allocate 5% of the SACCOS annual budget for buying shares of CBT. In thought so, the aim was to ensuring collective responsibility of each SACCOS to National Co-operative Bank of Tanzania. This strategy was effective, and led to some of cooperatives allocating the stated percent of the annual budget and invest in shareholding at NCB. Considering number of registered cooperatives in Tanzania, mobilization technique was also essential. On an interview with one of the KII from TCDC

It is good that KCBL to request a mobilization fund support from TCDC, an opportunity that was not utilized before as long as the fund available is contributions from cooperative societies'

Operational Management Steps for Establishment of Sustainable National Cooperative Bank:

This study has found that the demutualizing a cooperative bank to a commercial bank is a compliance process. The process has to consider the following common steps, and skipping any may subject with failure and question its sustainability. In the context of this study, these steps were also treated as operational management indicators of sustainability: The first steps is:

(a) *membership opinion and voting:* There should be free and fair voting for a sustainable operations and management of cooperative bank. In regard to demutualization of KCBL to NCB, this step remains unresolved due to existence of varied opinions on how it was achieved, and maybe there was no the membership voting. Organisation sustainability requires fully transparency and the movement of NCB is subject to political influence. According to cooperative principles, one member one vote, and thus any decision like transformation to NCB requires membership decision. The theme found to received different opinions from shareholders of KCBL who were also members of cooperative societies. Others were of the opinion this was a call for the government through TCDC to boost the economy of the country. One the key respondents argue

'I am not sure if we voted for demutualization, because KCBL is still at infant stage with a lot of problems and they did not manage to provide dividends to members all these years. Another, KII responded, 'We informed by to attend the meetings, and told a new investor who is CRDB is interested to inject TZS 7 Billion and we can transform this Bank to operate countrywide, and we think that's right'

Democracy in cooperative societies has been on the pillar and it's among seven principles of cooperatives for a decision to undergo demutualization of any cooperative society. Skipping one of the principles my subject to unforeseen decision challenges to organization.

- (b) *Liquidation of the Banks subject to regulatory compliance –Bank of Tanzania:* After member agreed on demutualization, the second step is capitalization. The establishment of this stage came due to purchase of share being at 'slow progress' as were observed thus capital upscaling amounting to TZS 15 Billion for KCBL to qualify and operate as a National Bank was delayed for a projected time frame. On the analysis of the investment share structure, by KCBL, it was projected that 51% shares of TZS 15 Billions, should be sold to all cooperative societies (SACCOS, AMCOS, UNION and Federations). The 49% of shares should be distributed by 20% goes to CRDB bank, Tandahimba Co-operative Bank (TACOBABA) and KCBL; whereas the 29% to Government, Individuals and other interested companies. By the due time collection of data, different approaches were observed on shareholding membership mobilization by KCBL.
- (c) *Setting management structure – Coops, Company, and licensing (double) –laws and act:* The most significant part of the organisation sustainability is the structure. The KCBL operation to National level requires a structure, that suffices its nominal outlook and business performance. The consensus has not reached for should it registered as company or cooperative. However, the most recognized structure is holding company structure, divisional structure, and a functional structure.
- (d) *Approval of member's provision of ownership conversion right to shareholders:* In review of this stage, though very important and critical to ascertain the existing shares owned by members. During an interview with key respondents, the study found the concept of shares distribution of 51% by 49% remains unclear to former members of KCBL. The current regime is of the opinion the National Cooperative Bank will be registered as a company and not cooperative society which is contrary to the model of KCBL which is under cooperative society. To the members, think it as a strategy of stealing money, ownership through management by the few from their cooperative bank. A lawyer from MoCU commented

'As it is named National Cooperative Bank, it should be registered under the Cooperative Act and not as a Company Act, however, the Cooperative Act is silent on the amendment for the cooperative bank when stops functioning'. This call for amendment of the Cooperative Act to suits functional body of NCB.

- (e) *Set up of strategic goal, growth and expansion:* In view of this study, this stage was established because strategic goal is a prominent tool for organization vision, mission and long-term planning with various innovative approaches to enhance growth and expansion, which in the context of demutualization of KCBL remains paramount and needy for implementation. KCBL observed at infant stage of transformation, the growth context was in view of the respondent that,

‘Clear mission, vision and demonstrable competence in financial performance with transparency in all organization activities has no doubt to contribute on future sustainability of the cooperative bank’. The second key informant responds ‘People fear the historical failure of cooperatives; thus, I think transforming to a national cooperative bank requires planned risk management strategies and proper lending decisions by standards’

Sustainability indicators of National co-operative bank following KCBL demutualization: The analysis of indicators (Table, 4) that influence sustainability of National Co-operative Bank showed that externalities, financial crisis, and financial markets were significant factors alter sustainability. These three factors were found to be the basis for sustainability indicators after demutualization. Other determinants are cooperative principles, internal force and transformation (excluding accountability which is positive) were negatively in relationship with sustainability but insignificant. In considering, the externalities coefficient was found to be 1.438 (p-value < 0.05), which can significantly influence positive change in the demutualization of KCBL to CBT from every unit change. The effects of the externalities on financial stability of cooperative banks of Tanzania is uncertain. There are risks and uncertainty which exhort costs from financial crisis, economic pressures, inflation, market shares, economic evolution of non-cooperatives and thus should management focus on possible risk analysis and mitigation strategies. The opposite opinions are by Mbugua & Waweru, (2020) considering demutualization found to have no significant influence on financial performance of cooperatives. Meanwhile financial crisis was negatively significantly found influenced sustainability of CBT after demutualization of KCBL at coefficient value of 1.395 (P-value < 0.05). This implies determinants and other associated factors of financial crisis such as change in interest rates, exchange rates, inflation, market shares, and competition from non-cooperative banks could hinder the sustainability of banks that undergo demutualization. These findings concur with Battilani & Schröter (2012) on analysis of demutualization problems. The study found, financial market was positive and significant influencing sustainability of CBT at coefficient value of 1.803 (P-value < 0.05). The emerging financial markets in Tanzania include investment in Unit Trust of Tanzania (UTT), Treasury Bonds/Treasury Bills, Fixed Deposit (FDR), Dar es Salaam Stock Exchange, Mobile Money agent services, eg M-PESA, Tigo-PESA and Cryptocurrency. The expansion of these financial markets has significant impacts on the sustainability of cooperative Bank through financial services intermediation. On response to other financial services, one of the KII responded,

‘One the new bank is established, we are going to have different products services, include mobile banking, ATM machines, and Mobile Agent Services for the users of Telecom companies that offer financial services’

With negative relationship with coefficient of banks sustainability, Cooperative principles as by in question carries cooperative identity could deviate influence from NCB mutatis mutandis. The implication is caused by member registration perception on shifting from cooperative to a company registration yet cooperatives are majority owners of 51% of shareholding.

Table 4: Analyzed sustainability indicators that influence of demutualization of Co-operative Bank

Variables	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
Dependent: Demutualization							
(Constant)	1.784	0.610		2.925	0.009		
Accountability	0.163	0.383	0.101	0.426	0.675	0.451	2.216
Externalities	1.438	0.358	0.838	4.020	0.001*	0.585	1.709
Financial crisis	-1.395	0.662	-0.434	-2.109	0.049*	0.601	1.663
Cooperative Principles	-0.104	0.620	-0.034	-0.168	0.869	0.633	1.580
Financial markets	1.803	0.634	0.683	2.843	0.011*	0.441	2.267
Internal force	-0.376	0.908	-0.088	-0.415	0.683	0.570	1.753
Transformation	-1.054	0.890	-0.242	-1.184	0.252	0.607	1.648

CONCLUSION AND RECOMMENDATIONS

With demutualization of Kilimanjaro Cooperative Bank operating at a regional level to establish a country level operating bank, the Co-operative Bank of Tanzania. The study concluded Sustainability Strategies include to have effective bank operational Management. It is also important to cooperate and follow proposed procedures for establishment of Sustainable National Cooperative Bank which are i). membership opinion and voting, ii) Liquidation of the Banks subject to regulatory compliance –Bank of Tanzania, iii). Setting management structure – Coops, Company, and licensing (double) –laws and act, iv). Approval of member’s provision of ownership conversion right to shareholders and v). Set up of strategic goal, growth and expansion. Further this study concluded that externalities, financial crisis, and financial markets are indicators influence sustainability of National cooperative bank. The study recommends that; the Co-operative Bank of Tanzania should develop financial crisis and risk assessment strategies aligned with likelihood proper measures for its sustainability on banking industry. Cooperatives societies and other shareholders have to participate collectively in the decision-making processes regarding financial market strategies and company prosperity, simultaneously maintain cooperative identity in Tanzania. Policymakers and regulators should provide financial business environment that does not contradict compliance issues with Cooperative Societies Act, Companies Act, Banking and Financial Institutions Act, Capital Market and Securities Act. However, some other factors such as capital market operation, non-cooperative shareholders

and legal issues merging with cooperative and companies are recommended for further study in sustainability Banks. Further, Comparative study, with clear and specific checks and balances on sustainability plans of similar banks is recommended.

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Author statement: Transformation of cooperatives to a new form of business remains advantageous to future economy of member-based cooperatives

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