COOPERATIVE BANK SUSTAINABILITY AFTER DEMUTUALIZATION: STRATEGIES AND INDICATORS

Damian Boniface Sambuo
Moshi Co-operative University, Tanzania. Email address: damian.sambuo@mocu.ac.tz ; ORCID: https://orcid.org/0000-0002-7603-0674

Abstract
A fundamental shift in cooperative governance improves market share, financial service provision, product cost control, and enhances financial stability. However, despite ongoing efforts toward structural ownership changes among cooperative banks, governance and compliance gaps continue to hinder the sustainability of the cooperative banking system. The study examined sustainable strategies and indicators in the transition of a demutualized local cooperative bank to a National Cooperative Bank (NCB). The study employed purposive and simple random sampling to collect data via questionnaires from 54 cooperative societies and 162 cooperative leaders. Exploratory factor analysis was conducted to identify strategies that enhance bank sustainability. The study employed a binary multiple regression model to analyze sustainability indicators. Results indicate that effective bank operations, inclusive management, and strict adherence to implementation processes are critical strategies influencing the sustainability of the National Cooperative Bank (NCB). Externalities, financial crises, and financial markets were found to be significant indicators ($P < 0.05$) influencing NCB sustainability. Lastly, prior to the NCB take-off, financial crisis mitigation and risk assessment strategies are recommended. Cooperatives and policymakers are advised to ensure that the cooperative identity is maintained through integrated training on bank governance conducted by cooperatives. Further, perception of mergers and acquisition by NCB and non-cooperative shareholders is recommended for further study.

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

AJCDT, Vol. 9 No. 1 (December, 2025), pp. 149 – 164, © 2025 Authors

INTRODUCTION

Globally, the underserved communities experienced gaps on financial exclusion led to emerging of various financial market solution like community banks, credit unions and cooperative banks. In Europe, there are about 2 400 cooperative banks with 20% average market share, 40 000 outlets and 720 000 employees (EACB, 2024). Guided by co-operative principles, cooperative banks have undergone unique financial management based on open governance and equal economic participation (Kleanthous et al., 2019). Financial cooperatives kept supporting credit finance at household and individuals at the time of financial crisis even when individuals access to commercial banks were denied (Mckillop et al, 2020). In Sub-Saharan Africa countries, Cooperative Bank has suffered from almost five global economic recessions from 1970 to 2022, in 1975, 1982, 1991, 2009, and 2020, with a decline of exchange rate of 1.9-3.9 percent. The 2021 financial crisis due to Covid 19 left commercial banks and cooperative financial institutions with the choice of organisational structural change and planned sustainable strategies (Guénette et al, 2022). Other determinants of structural change were economic development needs, the emergence of social solidarity economy, resilience against crises, financial exclusion, policy and legal frameworks and promoting inclusive growth through investor-owned ownership influenced cooperative transformation (Espinoza et al., 2025; Anakpo et al., 2024; Chibueze, 2024; Birchall, 2013; Fonteyne, 2007). Despite ongoing efforts to restructure ownership in cooperative banks, governance and compliance gaps continue to hinder the sustainability of the cooperative banking system. Akinsoyinu, (2017) argued that Europe's small banks, such as cooperatives, are more vulnerable now than in the past when facing major financial crises, and therefore should consider demutualization. Chaddad and Cook (2004) defined demutualization as the transformation of a legally recognized cooperative bank from a mutual ownership structure into a company owned by shareholders, whereby control rights and claims are rationally distributed among the shareholders. Demutualization has been associated with capital accumulation, reduced transaction costs, changes in members' income, and relief from financial crises and other economic pressures(Mbugua & Waweru, 2020). Kleanthous et al. (2019) opposed demutualization, arguing that it can lead to adverse governance consequences for cooperatives. Evidence from Cyprus demonstrated that cooperative credit unions were demutualized by the government, with 99% of the shareholders belonging to the state. As a result, governance structures were overturned, and member control was significantly restricted by government officials. Mbugua & Waweru, (2020), presented a contrasting perspective, contending that demutualization has no significant influence on the financial performance of cooperatives unless it is accompanied by vertical integration and the subsequent separation of patronage from ownership rights and control. In this context, Mckillop et al., (2020) argued that ownership rights within the traditional cooperative structure are not tradable, capital is not held by external parties, and demutualization may lead to elevated agency costs arising from the expenditure behavior of board members and management. Although studies (McAlevey et al., 2010 and Ralston et al.,2001) suggested that mergers between cooperative banks and commercial banks can enhance efficiency. Mckillop et al. (2020) contend that cooperative bank mergers may precipitate significant challenges, including the erosion of cooperative identity, diminished dividend distributions, and heightened incidences of loan arrears. Despite these concerns, there remains a paucity of empirical evidence regarding members' comprehension of the organizational structure, governance mechanisms, and broader perceptions of the newly constituted National Co-operative Banks. This gap extends to critical issues such as the distribution of member benefits and the role of government interventions in shaping cooperative outcomes. Furthermore, the Co-operative Act of 2013 is notably silent on provisions concerning the establishment of a National Co-operative Bank, as well as on the regulatory framework governing the purchase and sale of shares. Taken together, these omissions underscore a pressing lacuna in both policy and practice, leaving questions of sustainability, transparency, and accountability within cooperative banking unresolved. Addressing this gap constitutes the central objective of the present study.

Perspectives and experiences from cooperatives after demutualization: Dakota Growers Pasta Company (DGPC) was established in 1994 as a locally owned and controlled cooperative, organized by and for regional farmers. Following its demutualization, DGPC transitioned into a multimillion-dollar multinational enterprise (Gray et al., 2014). Several factors underpinned this demutualization, including discursive framings that positioned privatization as a solution to everyday operational challenges, as well as specific member-driven motives such as enhanced equity access, improved equity liquidity, reduced cost of equity, and opportunities for corporate acquisition. Ultimately, 83 percent of members voted in favor of conversion. Nevertheless, the decision to transform into an investor-owned company provoked opposition, as it was perceived to contravene fundamental cooperative principles—namely, voluntary and open membership, and collective action through democratic member control (Gray et al., 2014). The demutualization of cooperatives has frequently been interpreted as a catalyst for the division between "co-op values" and "co-op business" (Kleanthous et al., 2019). This tension arises because cooperative principles, while widely acknowledged, are increasingly treated as optional within the contemporary business environment in which cooperative models must operate. Distinct from other forms of cooperatives, financial cooperatives have arguably demonstrated weaker adherence to the seven internationally recognized cooperative principles (Oczkowski et al., 2013), thereby raising critical questions regarding the accountability of both members and leadership. In contrast, the sustainability and accountability of cooperative enterprises adopting a corporate identity have often been pursued through strategies aimed at strengthening equity capital. Such approaches include the issuance of non-redeemable member-investor shares, capital-seeking mechanisms, and the adoption of non-voting shares, all of which reflect a shift toward prioritizing financial resilience over traditional cooperative governance norms. In response to profound external pressures and the concomitant erosion of cooperative principles, legislative interventions were employed to safeguard the benefits accruing to individual members of financial cooperatives (Wilson & MacLean, 2012; Cook & Chaddad, 2004). Notably, several U.S. states, including Iowa and Minnesota, enacted statutory reforms authorizing the infusion of outside equity into cooperatives as a means of facilitating capital financing. In addition, certain jurisdictions permitted the establishment of cooperatives under hybrid ownership structures, encompassing both patron and non-patron rights. These developments reflect broader institutional shifts that challenge the traditional cooperative ethos and underscore the growing demand for comprehensive legislative reform within the cooperative sector's institutional environment (Cook & Chaddad, 2004). A study conducted in the United Kingdom revealed that the restructuring of the Co-operative Bank represented an effort to acquire a new, generic identity aligned with the broader banking industry, while simultaneously attempting to preserve its cooperative heritage. Nevertheless, the strategic management of cooperative banks remains insufficiently understood. As a consequence, the Co-operative Bank of the UK underwent several transformations. Initially established as the banking arm of the Co-operative Wholesale Society (CWS), it later adopted the identity of a national bank in pursuit of greater legitimacy and respectability within the financial sector. However, following difficulties in its retailing operations and criticisms regarding its limited adherence to cooperative principles—reflected even in its name—the institution ultimately sought to reassert its cooperative movement ideals (Wilkinson & Balmer, 1996). By 1962, Tanganyika witnessed the establishment of the Cooperative Bank of Tanganyika, which was subsequently dissolved in 1964 following the union of Tanganyika and Zanzibar. In its place, the National Cooperative Bank (NCB) was created under the provisions of the National Co-operative and Development Bank Act of 1964 (Maghimbi, 2010; Sambuo, 2023). As part of the broader revitalization of the cooperative movement in Tanzania, the Kilimanjaro Co-operative Bank Limited (KCBL) was founded and registered as a cooperative in 1996, while the Cooperative and Rural Development Bank was registered in the same year as a company. Although the specific reasons for the dissolution, merger, and acquisition of these institutions lie beyond the scope of this study, it is evident that sustained efforts have been directed toward the establishment of a viable National Cooperative Bank over several decades. Nevertheless, persistent financial and managerial challenges at KCBL eventually prompted its demutualization and the subsequent formation of the Co-operative Bank of Tanzania (Sambuo, 2022). The primary objective of this transformation was to expand services to members and to mitigate financial crises at the household level. The ongoing initiative to re-establish the Co-operative Bank of Tanzania (CBT) may yield outcomes comparable to those observed in merged credit unions across the United States, Australia, New Zealand, and the United Kingdom, including enhanced service provision, improved product cost control, and strengthened financial stability (McKillop et al., 2020). Nevertheless, members of credit unions and shareholders of the Kilimanjaro Co-operative Bank Limited (KCBL) in Tanzania possess limited evidence regarding the anticipated consequences of demutualization into a National Co-operative Bank. Critical questions remain unresolved: will the newly constituted bank achieve long-term sustainability, or will it replicate the historical trajectory of dissolution experienced by the National Cooperative Bank (NCB), alongside the repeal and transition of the Co-operative and Rural Development Bank in 1996? Equally pressing is the issue of cooperative identity, which, following demutualization, continues to lack a definitive resolution.

Transformation and sustainability in Cooperative Banks: The transformation of cooperative banks toward sustainability is shaped by principles of fair income distribution, the promotion of economic democracy, and processes of de-commodification, all of which align with context-specific indicators and cooperative objectives that serve as benchmarks for sustainable development (Novković & Šimleša, 2023). Ferri (2021) further emphasizes that the sustainability of cooperative banks is largely determined by their stakeholder-oriented governance model, the nature of their banking relationships, and their resistance to adopting risky financial innovations. These features render cooperative banks comparatively more resilient and effective over the long term. By contrast, the sustainability of conventional banks is influenced by broader societal factors, including cultural norms, profit imperatives, and environmental concerns. However, conventional institutions increasingly face challenges arising from generational dynamics, particularly the dominance of millennials and the declining interest of younger generations in cooperative models (Wibowo, 2021). Venanzi and Matteucci (2022), in their study on sustainable models of cooperative banking, found that cooperative banks with assets exceeding 8 billion euros exhibit lower systematic and business risk, achieve superior asset quality, and demonstrate a stronger orientation toward financing the local real economy. The pursuit of sustainability in these institutions is primarily driven by their emphasis on meeting the needs of customers—both borrowers and depositors—rather than prioritizing shareholder interests. This customer-centric approach underscores the distinctive cooperative ethos that differentiates such banks from conventional investor-owned financial institutions. Moon and Lee (2020) argue that the sustainability of cooperatives is significantly influenced by the nature and duration of organizational development assistance (ODA), as prolonged reliance on external aid may undermine self-reliance. Consequently, the establishment of strategies to maintain operational performance beyond the period of assistance is essential for long-term cooperative viability. In a broader review of sustainability in business, Atz et al. (2023) highlight that environmental, social, and governance (ESG) factors contribute to improved financial performance, often yielding asymmetric benefits during periods of social and economic crisis. These dynamics were particularly evident during the 2008 global financial crisis and the COVID-19 pandemic, when cooperative banks in Germany and Italy demonstrated resilience and adopted countercyclical lending practices. Such stability was largely attributable to their strong membership base and robust governance structures, underscoring the distinctive sustainability pathways available to cooperative financial institutions. Studies (Atz et al., 2023; Novković & Šimleša, 2023; Venanzi and Matteucci, 2022; and Moon & Lee 2020) have demonstrated that capital generated through demutualization has contributed to a reduction in the reliance on intermediaries, including diminished use of securities markets relative to banks among both producers and consumers (Jain et al., 2024). Furthermore, the capital structure of demutualized institutions has been shown to be significantly shaped by the role of shareholding members and the diversification of financial products. Shareholding members, in particular, exhibit heightened sensitivity to operational management and the governance practices of cooperative banks. In light of these dynamics, scholars have recommended a range of measures aimed at strengthening operational efficiency and governance frameworks, thereby ensuring the long-term sustainability and accountability of cooperative financial institutions.

Theoretical framework: The Theory of Institutional Change provides a framework for explaining organizational behavior and the underlying reasons for shifts in institutional practices within a broad socio-economic context (Bush, 1987). The theory distinguishes between elements situated within organizational boundaries, conceptualized as a closed system, and those external factors with which organizations interact, conceptualized as an open system (Guth, 2016). Central to this perspective is the notion of structuration, a process initiated by agents that involves the reconfiguration of social structures and the collective redefinition of norms and practices in pursuit of public legitimacy and sustainability (Guth, 2016). Within this study, the Theory of Institutional Change serves as a guiding lens for understanding the restructuring and transformation of the Kilimanjaro Cooperative Bank Limited (KCBL) into the Co-operative Bank of Tanzania, representing a new form of cooperative enterprise (Battilani & Schröter, 2012). Specifically, the theory informs the identification of sustainability indicators relevant to KCBL's transformation, the design of accountability structures for the proposed cooperative bank, and the mechanisms for member engagement in prospective governance and management. Linking the Theory of Institutional Change to the process of demutualization highlights the transformation whereby a member-owned enterprise, such as a cooperative, undergoes legal restructuring to become a joint-stock company owned by shareholders—commonly referred to as an investor-owned business (Galor, 2008). Such restructuring inevitably alters organizational behavior, yet the trajectory of change remains subject to external influences, including financial crises, market dynamics, and global recessions. These external pressures represent the open-system elements with which cooperatives must continuously interact (Guth, 2016). Moreover, the demands of dynamic economic growth have prompted further inquiry into models that enable cooperatives to adapt effectively to market forces. By contrast, maintaining cooperatives strictly within localized operations reflects a closed economic system, which may constrain future prosperity for members and other beneficiaries by limiting their capacity to integrate into broader financial and economic networks. The extant literature underscores the importance of preserving cooperative identity while simultaneously modeling cooperative structures to expand services from the local to the national level, primarily through the accumulation of equity capital as a foundation for long-term sustainability. However, a notable gap persists in scholarly discourse regarding the sustainability approaches adopted by cooperative banks, particularly in relation to the accountability of members and leaders in shaping management trajectories. Furthermore, limited attention has been devoted to examining the environmental factors that may influence the financial stability of cooperative banks. Addressing these omissions is critical for advancing a comprehensive understanding of cooperative banking sustainability, accountability, and resilience within evolving institutional and market contexts. Therefore, the present study aims to analyse Cooperative bank sustainability indicators and strategies after demutualization in Tanzania. 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.

METHODS

The study was conducted from 54 randomly selected cooperative societies located in five regions of Tanzania namely Kilimanjaro, Arusha, Kigoma, Pwani, and Dodoma aims to capture diversifications of cooperative by type, crops specific and geographical location. Using purposive sampling, Cross sectional data from sample size of 162 leaders of coop representing 54 coops were collected at a single point in time. 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. Quantitative data were collected using questionnaire to gather information related to demutualization, national cooperative bank and its importance; factors influence transformation, accountability and sustainability (Wisdom & Creswell, 2013). The questionnaire was pre-tested to 8 randomly selected respondents (5% of total respondents) to identify and rectify unfamiliar terms used therein. Ensuring the validity of data was essential to Likert scales questions, 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). 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 was developed intended with the aim of grouping these items to form a unified concept or construct. 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

While quantitative variable measurement for continuous data was retained (Table 2). Exploratory factor analysis of the index for each qualitative 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:

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

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

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

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

$$Demutualization = \propto + \beta_1 It_1 + \beta_2 It_2 + \beta_3 It_3 + \cdots + \beta_n It_n \ldots\ldots\ldots\ldots\ldots\ldots\text{(iii)}$$

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	Continuous: 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 (It_5)	Number of financial service agents provide similar services	Continuous: Numerical
Internal force (It_6)	Diversity in Banking products	Continuous: Numerical
Transformation (It_7)	Number of members voted for transformation	Continuous: Numerical

RESULTS AND DISCUSSION

Descriptive Statistics on Determinants for demutualization: Findings from Table 3 show that 54% of respondents view the cooperative model as resilient, while 18% and 28% expressed disagreement. This majority confidence should be leveraged as a strategic advantage in demutualization, emphasizing resilience rather than abandoning cooperative identity. Over half recognized political and economic volatility as external forces driving demutualization, framing it as a response to systemic pressures rather than internal weakness. However, 75% either disagreed or remained neutral regarding legislative support, revealing weak cooperative legislation that undermines confidence post-demutualization. While demutualization may bypass inadequate legal frameworks, it risks alienating members if cooperative values are diluted. Strategic messaging must therefore balance resilience, external pressures, and legislative weakness to sustain member trust. The findings underscore the necessity of lobbying for stronger cooperative legislation or, alternatively, designing hybrid organizational structures that align with company law while safeguarding cooperative ownership principles. When asked whether the Kilimanjaro Cooperative Bank Limited (KCBL) should expand to the national level, membership opinions were divided, indicating the need for consensus-building prior to pursuing such expansion. Notably, 60% of respondents perceived compliance costs as burdensome, while 40% remained neutral, positioning regulatory compliance as a significant driver of organizational change. Leaders should emphasize that demutualization into a National Cooperative Bank could distribute compliance costs across a broader membership base, thereby enhancing efficiency through cost-sharing and economies of scale. However, only 32% of respondents agreed that a National Cooperative Bank would be practicable in the future, reflecting considerable uncertainty. This highlights the imperative for managers to invest in feasibility studies, pilot initiatives, and member education to substantiate practicability. Absent clear evidence, demutualization risks being perceived as speculative. Importantly, the prevailing neutrality represents an opportunity: with adequate information and persuasive communication, a substantial proportion of members could be convinced of the merits of restructuring.

Table 3. Determinants for demutualization

	Items	Frequency	CD	D	N	A	CA	Total
1	Co-operative business model resilient in time of economic and financial crisis	162	5%	13%	28%	21%	33%	100%
2	Changing in political and economic environment	162	4%	18%	25%	31%	22%	100%
3	The support of co-operative legislation	162	31%	24%	20%	19%	6%	100%
4	KCBL must grow to National level	162	23%	19%	24%	22%	12%	100%
5	Cost influence of regulatory compliance in traditional retail banking system	162	13%	10%	17%	24%	36%	100%
6	National Co-operative Bank will be practicable in future	162	15%	18%	35%	21%	11%	100%

Co-operative sustainability strategies: An analysis of cooperative sustainability strategies within the Cooperative Bank of Tanzania (CBT) revealed, through factor analysis, four principal approaches. These include: **(i)** lobbying and advocacy for the establishment of a national cooperative bank, **(ii)** mobilization of capital contributions from members, **(iii)** sensitization of membership to strengthen engagement and loyalty, and **(iv)** convening meetings with prospective members to encourage share acquisition. Collectively, these strategies underscore a multifaceted approach aimed at reinforcing institutional resilience and ensuring long-term sustainability. Moreover, these findings align closely with prior scholarship, notably the work of Filomeni et al. (2023) and Jones and Kalmi (2015), who similarly identify advocacy, capital mobilization, and member engagement as critical pillars of cooperative sustainability. This convergence suggests that CBT's strategic orientation reflects broader cooperative practices observed in comparative contexts, thereby reinforcing the relevance and applicability of these measures within the Tanzanian cooperative banking sector. Key Informant Interviews (KIIs) revealed that leveraging media outlets, cooperative education platforms, and Annual General Meetings (AGMs) to communicate the benefits of investing in cooperative banks constitutes a highly recommendable strategy. This approach is particularly salient given the National Cooperative Bank's (NCB) special exemption on interest charges granted by the Bank of Tanzania, which enhances its attractiveness to potential investors. Additional recommendations emphasized the importance of embedding sustainability and accountability as permanent agenda items in cooperative meetings. Since cooperative members collectively own 51% of the bank, they bear responsibility for monitoring progress, sharing perspectives, and ensuring that new members appreciate the significance of these principles. Furthermore, the findings highlighted the necessity of collective responsibility among Savings and Credit Cooperative Societies (SACCOS), whereby each society would allocate 5% of its annual budget toward purchasing shares in the National Cooperative Bank of Tanzania. Such a mechanism not only strengthens ownership but also reinforces long-term sustainability through shared investment and accountability. The successful implementation of these strategies was found to be closely dependent on mobilization efforts across the country. As emphasized by a key informant from the Tanzania Cooperative Development Commission (TCDC),

> "*KCBL's request for mobilization fund support from TCDC is a paramount opportunity that had not been utilized before, given that the available funds are contributions from cooperative societies*."

This observation underscores the centrality of resource mobilization in enabling institutional transformation. The evolution of the Kilimanjaro Cooperative Bank Limited (KCBL) into the National Cooperative Bank (NCB) unfolded through a systematic and sequential process designed to ensure legitimacy, financial viability, and organizational coherence. The transformation began with membership consultation and voting, thereby embedding democratic accountability at the core of the restructuring process. This was followed by capitalization to meet the financial thresholds required for upscaling, ensuring adequate resources for the transition. Subsequently, an appropriate management structure was established to provide operational stability and strategic oversight. Members then approved provisions concerning ownership conversion rights for shareholders, formalizing governance arrangements and safeguarding cooperative principles. The process culminated in the articulation of strategic goals and expansion strategies, which consolidated the institutional foundation for sustainable national operations. Collectively, these steps illustrate a deliberate and participatory pathway through which cooperative institutions can transition into national entities while maintaining resilience and legitimacy.

Sustainability performance indicators of the National co-operative bank: The analysis of sustainability indicators (Table 4) for the National Cooperative Bank revealed that externalities, financial crises, and financial markets were significant determinants influencing sustainability outcomes. These three factors emerged as the primary basis for sustainability considerations following demutualization. In contrast, other variables—such as cooperative principles, internal forces, and transformation (with the exception of accountability, which exhibited a positive relationship)—were negatively associated with sustainability but statistically insignificant. Specifically, the externalities coefficient was estimated at 1.438 (p-value < 0.05), indicating a significant and positive effect on the demutualization of KCBL into CBT, with each unit change in externalities contributing to measurable transformation. Nevertheless, the broader impact of externalities on the financial stability of cooperative banks in Tanzania remains uncertain. Risks associated with financial crises, inflationary pressures, market share fluctuations, and the competitive evolution of non-cooperative institutions impose considerable costs. Consequently, management must prioritize risk analysis and mitigation strategies to safeguard sustainability. It is noteworthy that these findings diverge from the conclusions of Mbugua and Waweru (2020), who reported that demutualization exerted no significant influence on the financial performance of cooperatives. This contrast underscores the contextual variability of demutualization outcomes and highlights the importance of situating cooperative transformation within specific economic and institutional environments. The analysis further revealed that financial crises exerted a significant negative influence on the sustainability of the Cooperative Bank of Tanzania (CBT) following the demutualization of KCBL, with a coefficient value of –1.395 ($p < 0.05$). This finding implies that determinants and associated factors of financial crises—such as fluctuations in interest rates, exchange rates, inflationary pressures, market share volatility, and heightened competition from non-cooperative banks—pose substantial risks to the long-term viability of demutualized cooperative banks. These results are consistent with the observations of Battilani and Schröter (2012), who identified financial instability as a critical challenge in the broader analysis of demutualization problems. Conversely, the study found that financial markets exerted a positive and significant effect on sustainability, with a coefficient value of 1.803 ($p < 0.05$). This suggests that engagement with emerging financial markets in Tanzania can enhance cooperative bank resilience and sustainability. Key opportunities include investment in the Unit Trust of Tanzania (UTT), participation in Treasury Bonds and Treasury Bills, utilization of Fixed Deposit Receipts (FDRs), trading on the Dar es Salaam Stock Exchange, and expansion into mobile money agent services such as M-PESA and Tigo-PESA, as well as emerging instruments like cryptocurrency. Collectively, these avenues provide diversified financial channels that can strengthen the cooperative banking sector's adaptability and competitiveness in a dynamic economic environment. The expansion of financial markets exerts a significant influence on the sustainability of cooperative banks through enhanced financial services intermediation. Key Informant Interviews (KIIs) emphasized that diversification into modern financial products and services is critical for strengthening institutional resilience and competitiveness. As one informant noted:

> "*Once the new bank is established, we will introduce a range of products and services, including mobile banking, ATM facilities, and mobile agent services for users of telecom companies that provide financial services*."

The analysis indicates a negative correlation with the coefficient of bank sustainability, suggesting that cooperative principles—traditionally central to safeguarding cooperative identity—may exhibit diminished influence within the framework of the National Cooperative Bank, *mutatis mutandis*. This implication arises from members' perceptions that the process of registration reflects a shift from a cooperative to a company form, thereby raising concerns about the erosion of cooperative ethos. Despite the fact that cooperatives retain majority ownership of 51% of the shares, the symbolic and structural transition toward a company model is perceived by some members as a deviation from cooperative identity. Such perceptions underscore the tension between maintaining cooperative principles and adapting to institutional transformations necessitated by demutualization. This highlights the importance of strategic communication and governance mechanisms to reassure members that majority ownership continues to safeguard cooperative values, even within a restructured institutional framework.

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	-.0415	0.683	0.570	1.753
Transformation	-1.054	0.890	-0.242	-1.184	0.252	0.607	1.648

CONCLUSION

The establishment of the Cooperative Bank of Tanzania was underpinned by strategies such as lobbying and advocacy, capitalization, membership sensitization, and the sale of shares. The transformation process followed a deliberate sequence of steps: first, membership consultation and voting to ensure democratic legitimacy; second, capital mobilization to meet the financial requirements for upscaling; third, the design of an organizational structure; fourth, member approval of ownership conversion provisions; and finally, the formulation of strategic goals to guide growth and expansion. The analysis further concludes that externalities, financial crises, and financial markets are significant indicators influencing the sustainability of the National Cooperative Bank. In contrast, other factors—including accountability, cooperative principles, internal forces, and transformation—were found to have insignificant effects on sustainability. These findings highlight the importance of external economic and financial dynamics in shaping cooperative banking resilience, while also underscoring the limited statistical influence of internal cooperative mechanisms in the post-demutualization context. The study recommends that financial risk assessment and financial market strategies be systematically examined and incorporated within the organizational framework of the National Cooperative Bank (NCB). Policymakers and regulators should establish a supportive financial environment by enacting clear policies on governance, capitalization, risk management, and member protection. Such measures are essential to ensure the long-term sustainability of the NCB and to strengthen its role in advancing inclusive cooperative finance. Further research is warranted to explore additional determinants of cooperative bank sustainability, including capital market operations, the role of non-cooperative shareholders, and legal complexities associated with mergers between cooperatives and companies. Moreover, comparative studies of similar cooperative banks, with explicit checks and balances embedded in their sustainability frameworks, are recommended to provide valuable lessons and best practices. These insights would contribute to refining cooperative banking strategies and enhancing resilience in dynamic financial environments.

Acknowledgement

This research was financed by departmental research fund of Moshi Co-operative University, 2022-2023.

Author statement

Transformation of cooperatives to a new form of business remains advantageous to future economy of member-based cooperatives.

REFERENCES

Akinsoyinu, C. A. (2017). Cooperative banks: is demutualization an answer? The experience of building Societies in the UK. Institutional Diversity in Banking: Small Country, Small Bank Perspectives, 73-100. DOI 10.1007/978-3-319-42073-8_4

Anakpo, G., Mishi, S., Tshabalala, N., & Mushonga, F. B. (2024). Sustainability of Credit Union: A Systematic Review of Measurement and Determinants. Journal of African Business, 25(3), 509–530. https://doi.org/10.1080/15228916.2023.2185423

Atz, U., Van Holt, T., Liu, Z. Z., & Bruno, C. C. (2023). Does sustainability generate better financial performance? review, meta-analysis, and propositions. Journal of

Sustainable Finance & Investment, 13(1), 802-825. https://doi.org/10.1080/20430795.2022.2106934

Battilani, P., & Schröter, H. G. (2012). Demutualization and its Problems. The Cooperative Business Movement: From 1950 to Present, 150-72.

Birchall, J. (2013). Finance in an Age of Austerity: the Power of Customer-owned Banks. Edward Elgar Publishing.

Bush, P. D. (1987). The theory of institutional change. Journal of Economic issues, 21(3), 1075-1116. 21(3):1075–1116. https://doi.org/10.1080/00213624.1987.11504697

Chaddad, F. R., & Cook, M. L. (2004). Understanding new cooperative models: an ownership–control rights typology. Applied Economic Perspectives and Policy, 26(3), 348-360.https://doi.org/10.1111/j.1467-9353.2004.00184.x

Chibueze, T. (2024). Scaling cooperative banking frameworks to support MSMEs, foster resilience, and promote inclusive financial systems across emerging economies. World Journal of Advanced Research and Reviews, 23(1), 3225-47. https://doi.org/10.30574/wjarr.2024.23.1.2220

European Association of Co-operative Banks (EACB). (2024). European cooperative banks in 2024: A concise assessment. Brussels: EACB. Retrieved from https://www.eacb.coop/en/studies/eacb-studies/european-co-operative-banks-in-2024-a-concise-assessment.html

Ferri, G. (2012). Credit Cooperatives: Challenges and Opportunities in the Global Scenario. Euricse Working Paper No. 31/12. http://dx.doi.org/10.2139/ssrn.2042511

Filomeni, S., Modina, M., & Tabacco, E. (2023). Trade credit and firm investments: empirical evidence from Italian cooperative banks. Review of Quantitative Finance and Accounting, 60(3), 1099-1141. https://doi.org/10.1007/s11156-022-01122-3

Fonteyne, W. (2007). Cooperative Banks in Europe: Issues, Policies and Prospects. IMF Working Paper, WP/07/159. International Monetary Fund, published under Elsevier distribution channels.

Galor, Z. (2008). Demutualization of cooperatives: reasons and perspectives. Report American Worker Cooperative, 66, 1-66.

Gray, T. W., Stofferahn, C., & Hipple, P. (2014). The Language of Demutualisation: The Case of Dakota Growers Pasta Cooperative. Journal of Co-operative Studies, 47(2), 44-49

Guénette, J. D., Kose, M. A., & Sugawara, N. (2022). Is a Global Recession Imminent? Available at SSRN 4223901. http://dx.doi.org/10.2139/ssrn.4223901

Guth, K. (2016). Institutional theory. In **The SAGE Encyclopedia of Corporate Reputation** (Vol. 2, pp. 360-361). SAGE Publications, Inc., https://doi.org/10.4135/9781483376493

Jain, C., Jain, P., & Taylor, D. A. (2024). Causes and effects of worldwide demutualization of financial exchanges. International Review of Economics & Finance, 91, 864-882. https://doi.org/10.1016/j.iref.2024.01.022

Johnson, D.R., & Creech, J.C. (1983). Ordinal measures in multiple indicator models: A simulation study of categorization error. American Sociological Review, 48, 398-407. https://doi.org/10.2307/2095231

Kleanthous, A., Paton, R. A., & Wilson, F. M. (2019). Credit unions, co-operatives, sustainability and accountability in a time of change: A case study of credit unions in Cyprus. International Journal of Social Economics, 46(2), 309-323. https://doi.org/10.1108/IJSE-06-2017-0231

Maghimbi, S. (2010). Cooperatives in Tanzania mainland: Revival and growth. ILO.

McKillop, D., French, D., Quinn, B., Sobiech, A. L., & Wilson, J. O. S. (2020). Cooperative financial institutions: A review of the literature. International Review of Financial Analysis, 71, 101507. https://doi.org/10.1016/j.irfa.2020.101520

Moon, S., & Lee, S. H. (2020). A strategy for sustainable developent of cooperatives in developing countries: The success and failure case of agricultural cooperatives in musambira sector, Rwanda. Sustainability, 12(20), 8632. https://doi.org/10.3390/su12208632

Mbugua, M. N., & Waweru, K. M. (2020). Demutualization, Member Transactions and Financial Performance of Co-operatives in Kenya. https://journals.cuk.ac.ke/index.php/12/article/download/38/34/

Mcalevey, L., Sibbald, A., & Tripe, D. (2010). New Zealand credit union mergers. Annals of Public and Cooperative Economics, 81(3), 423-444. https://doi.org/10.1111/j.1467-8292.2010.00414.x

Norman, G. (2010). Likert scales, levels of measurement and the “laws” of statistics. Advances in health sciences education, 15, 625-632. https://doi.org/10.1007/s10459-010-9222-y

Novković, S., & Šimleša, D. (2023). Measuring Transformational Impact of Cooperatives. In Humanistic Governance in Democratic Organizations: The Cooperative Difference (pp. 423-448). Cham: Springer International Publishing. https://doi.org/10.1007/978-3-031-17403-2_14

Nuanphromsakul, K., Szczepańska-Woszczyna, K., Kot, S., Chaveesuk, S., & Chaiyasoonthorn, W. (2022). Sustainability of rubber farmers cooperatives: Empirical evaluation of determining factors. AGRIS on-line Papers in Economics and Informatics, 14(4), 85-96.

Oczkowski, E., Krivokapic-Skoko, B., & Plummer, K. (2013). The meaning, importance and practice of the co-operative principles: Qualitative evidence from the Australian co-operative sector. Journal of co-operative Organization and Management, 1(2), 54-63.

https://doi.org/10.1016/j.jcom.2013.10.006

Ralston, D., Wright, A., & Garden, K. (2001). Can mergers ensure the survival of credit unions in the third millennium? Journal of Banking & Finance, 25(12), 2277–2304.

Sambuo, D. (2023). Co-operatology and the science of cooperative societies: A synthetic review of research on cooperative evolution. Journal of Co-operative Organization and Management,11(1):100190. https://doi.org/10.1016/j.jcom.2022.100190

Venanzi, D., & Matteucci, P. (2022). The largest cooperative banks in Continental Europe: A sustainable model of banking. International Journal of Sustainable Development & World Ecology, 29(1), 84-97. https://doi.org/10.1080/13504509.2021.1919784

Wibowo, D. (2021). Analysis of Financial Business Sustainability Study on Conventional Banks, Islamic Banks and Coop. Budapest International Research and Critics Institute-Journal (BIRCI-Journal), 4(2), 1953-1964. https://doi.org/10.33258/birci.v4i2.1882

Wilkinson, A., & Balmer, J. M. (1996). Corporate and generic identities: lessons from the Co-operative Bank. International Journal of Bank Marketing, 14(4), 22-35. https://doi.org/10.1108/02652329610119292

Wilson, F., & MacLean, D. (2012). The Big Society, values and co-operation. Work, employment and society, 26(3), 531-541. https://doi.org/10.1177/0950017012438572

Wisdom, J., & Creswell, J. W. (2013). Mixed methods: integrating quantitative and qualitative data collection and analysis while studying patient-centered medical home models. Rockville: Agency for Healthcare Research and Quality, 13, 1-5.

Zumbo, B. D., & Zimmerman, D. W. (1993). Is the selection of statistical methods governed by level of measurement? Canadian Psychology, 34, 390-400. https://psycnet.apa.org/buy/1994-24066-001