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Effect of Cooperative Governance on business performance of agricultural Multipurpose Cooperative Unions in Oromia Regional State, Ethiopia

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Abstract
The purpose of this research was to analyze the effects of cooperative governance on business performance of the selected cooperative unions in Oromia. Co-relational research design was adopted and both qualitative and quantitative research methods were employed. Samples of 9 Cooperative unions were selected in Oromia regional state and from these selected cooperative unions 228 total sample size of the individual respondents were used for data collection. Data were collected from e both primary and secondary sources to achieve the objective of the study. Data were analyzed using multiple regression model. The study found that most of the cooperative governance indicators had a significant positive effect on business performance of agricultural multipurpose cooperatives union measured in profit margin and credit growth rate in the study area. But the equity and inclusiveness, legitimacy and transparency of board of directors had negative effect on the business activities of the cooperative union. Therefore, special attention should be provided to the implementation of cooperative good governance pillars for ensuring efficient business performances of cooperative union in the Oromia region.

Keywords: Business, Cooperative, Governance, Performance

Introduction

Although, there are some serious issues in cooperatives, especially in saving and credit cooperatives such as the requirement for suitable legislation for regulating such cooperatives, effective supervisory and monitoring arrangement, adhering to member-based business activities, setting good governance practice, putting internal control in place, following ethical practices in business and bridling the temptation to make and distribute undue profit (Khatiwada, 2014) [3]. Pearce and Robinson (2011) [7] observe that to restore public confidence in the reliability of financial reporting, the US Senate and House of Representatives passed the Sarbanes-Oxley Act of 2002, sending it to President George W. Bush, who signed the reform measure into law on July 30, 2002. They explain that when the Sarbanes Oxley Act of 2002 was signed into Law; there was increased disclosure by companies. Each annual and quarterly financial report filed with Securities and Exchange Commission was to disclose all material off-balance sheet transactions, arrangements, and obligations that may affect the current or future financial condition of the company. According to McIntyre (2006) [5], corporate governance tends to be more complex in cooperative structures, compared with classical firms, not only due to their democratic principle for decision making but also because their ownership is usually much more diverse. This makes corporate governance a fairly touchy issue more so for growth and performance dynamics for credit unions which unions in some countries like Kenya are called savings and credit co-operatives. Good governance is now accepted as virtual to a achieving the Millennium Development Goal that deals with eradication of extreme poverty and hunger and as a precondition for sustainability of organizations. Contemporary cooperative organizations embrace corporate governance but there is no clear indication however that this corporate governance really has a bearing on performance of cooperatives. It is often inferred that agency problems are more prevalent, disturbing and acute in cooperatives than in other non-investor-owned businesses.

In other words, cooperatives would have inherent problems in defining who best takes the entrepreneurial lead in the organization: the members, the directors or management. There is, however, no concluding theoretical basis or empirical evidence for this pessimistic view. Previous studies also showed that member/management conflict increases with the growth of the cooperatives (Cuevas & Fischer, 2006) [1] and hence poor performance. Lari (2009) [4], argues that principal/agency conflicts affect performance of cooperatives. Successful cooperatives are results oriented and creative with marketable products. They invest in quality management and their pricing as well as interest rate policies are inspired by the prevailing market conditions (Develtere *et al*, 2008: 20) [2]. In cooperative societies, it is the responsibility of the board of directors to ensure that the cooperative societies comply with the standard and policies that enhance good governance (Otieno & Ombuna, 2015) [6]. It means managers and boards are accountable for their own action relating to themselves and others.

Material and methodology

Co-relational research design was adopted in this study. The researcher systematically collected and analysed to test hypotheses relating to managers professional efficiency in business performance of cooperatives. There were 20 zones in Oromia Regional State.

Out these 20 zones of the region four zones were selected purposively. Sample selection criteria of zones are nearness and accessibility of required data. Out of these 97 Cooperative unions 9 are selected purposively. The 228 total sample size of the individual respondents were calculated from the total population 529 using Yamane (1967) formula. The primary data were obtained through both open ended and closed ended questionnaire from relevant respondents using five-point liker scale and by key informant interviews guided by checklist from board members, managers to achieve the objective of the study. To meet the objective of the research the collected data were analysed using multiple regression.

Results and discussions

1. Profit margin

As pointed out in Table 1 below, multiple regression analysis was conducted to determine the effect of cooperatives governance on business performance (profit margin) of cooperative union in ormia regional state. The result shows that there is strong positive relationship between of cooperative governance measured in boards legitimacy, control management of boards, boards oversight, participation, predictability, accountability, transparency, equity and inclusiveness and responsiveness that the R-squared showed that about 61.2% variations cooperative union business performance measured in profit margin is attributed to the measures of cooperative governance. Hence, the coefficient of determination shows that the main model has a strong explanatory power on the changes on profit margin. Therefore, the null hypothesis is rejected and the alternate hypothesis accepted accordingly.

Hypothesis -7

Ho: Cooperative governance has no significant effect on profit margin of cooperatives union in the study area.

H1: Cooperative governance has significant effect on profit margin of cooperatives union in the study area.

Table 1: Model Summary [b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.782[a]	.611524	.398	2.52976	.611524	3.461	10	217	.000

Furthermore, the probability of the F-statistic of 0.000 in the ANOVA Table 2 below shows that the regression result is statistically significant because, this is less than 5%, the level of significance adopted for this study.

Table 2: ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	221.519	10	22.152	3.461	.000[b]
	Residual	1388.727	217	6.400		
	Total	1610.246	227			
a. Dependent Variable: Profit margin						
b. Predictors: (Constant), Cooperative governance pillars						

Table 3: Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	12.592	1.494		8.426	.000
Legitimacy of Boards	-.521	.209	-.214	-2.493	.013
Boards control management	1.143	.311	.432	3.680	.000
boards Oversight	.009	.021	.030	.429	.668
Equality and inclusiveness	-2.306	.309	-.095	-4.991	.000
Predictability	-.629	.315	-.223	-1.993	.047
Accountability	.229	.264	.083	.866	.0461
Transparency	.518	.292	-.154	1.771	.038
Participation	.673	.265	.219	2.541	.012
Responsiveness’	.910	.524	.171	1.738	.084

Legitimacy of Boards: From Table 3 above, boards legitimacy has negative effect on the dependent variable (profit margin) which is statistically significant (with t = -2.493, β=-0.521) and p = 0.013< 0.05. This implies that a unit change in legitimacy of boards will result decrease in business performance (profit margin) of the cooperative union-0.521 units. Therefore, the null hypothesis is rejected and the alternate hypothesis accepted accordingly.

Boards control management: Evident from Table 3, the coefficients of boards control management is 1.143 with a P-Value of 0.000<0.05. This implies that a unit increase in

Boards control management will result into 1.143 units increase in profit margin of in Cooperative unions in Oromia region. These findings imply that increase in boards control management positively affects business performance of cooperative unions due to strong control of the business activities of the cooperative union since use of strong control management lowers the extravagancy of resources and increases the efficiency of board of directors of the cooperative union. These findings agree with findings by Rainhart and Rogoff (2009) [8] who found significant effect of debt management on ROE of small and medium enterprises and that an increase of debt in the capital structure leads to an increase in ROE.

Predictability: As shown in Table 3, the coefficients of boards control management is -0.629 with a P-Value of 0.047 <0.05. This implies that a unit decrease in predictability will result into -0.629 units decrease in profit margin of in Cooperative unions in Oromia region. The result also imply that predictability have a significant effect on profit margin of cooperative unions in the study area, hence the null hypothesis that Cooperative governance has no significant effect on business performance of cooperative union in the study area was rejected at 5% level of significance and the alternative hypothesis was accepted. These findings imply that decrease in predictability negatively affects business performance of cooperative unions due to board of directors of the cooperative union failed to forecast their union's business activity in right manner since unable to predict their business environment lowers the profit margin of the cooperative union.

Accountability: From Table 3, the coefficients of accountability is 0.229 with a P-Value of 0.0468<0.05. This implies that a unit increase in accountability will result into 0.229 units increase in profit margin of cooperative union in the study area. The result also imply that accountability have a significant effect on profit margin of cooperative union, hence the null hypothesis that cooperative governance has no significant effect on profit margin of cooperative union in the Oromia regional state was rejected at 5% level of significance. These findings imply that as accountability of leaders' increases the cooperative will increase its business performance.

Transparency: The finding from Table 3, the coefficients of transparency is 0. 518 with a P-Value of 0.038<0.05. This implies that a unit increase in transparency will result into 0.518units increase in profit margin of cooperative union in the study area. These findings imply that as transparency of leaders in decision making, planning and dividend distribution increases the cooperative will increase its business performance.

Participation: the output from Table 3, the coefficients of participation is 0.673 with a P-Value of 0.012<0.05. This implies that a unit increase in participation will result into 0.673 units increase in profit margin of cooperative union in the study area. Hence, the null hypothesis that cooperative governance has no significant effect on business performance (profit margin) of cooperative union in the Oromia regional state was rejected at 5% level of significance. These findings imply that as participation of leaders' increases the cooperative will increase its business performance.

Equality and inclusiveness: The result in Table 3, shows that equality and inclusiveness have a negative significant effect on profit margin of cooperative union with the coefficients of (β= -2.306, t-value=-4.991 and a P-Value of 0.000<0.001). This implies that a unit decrease in equality and inclusiveness will result decrease in profit margin by -2.306 units of cooperative union in the study area. The finding implies that as equality and inclusiveness violated in decision making, planning, special meetings of the business of the cooperative union results inefficient business performance.

2. Credit growth

The R-squared showed that about 63 % variations in business performance measured in credit growth of the cooperative union is attributed to the measures of cooperative governance while the remaining 37% variations in credit growth are caused by other factors not included in this model. Hence, the coefficient of determination shows that the main model has a strong explanatory power on the changes on credit growth. Furthermore, the probability of the F-statistic of 0.003 in the ANOVA Table 4 below shows that the regression result is statistically significant because, this is less than 5%, the level of significance adopted for this study. Therefore, the null hypothesis was rejected and the alternate hypothesis was accepted accordingly.

Hypothesis- 12

Ho: Cooperative governance has no significant effect on credit growth rate of cooperatives union in the study area.

H1: Cooperative governance has significant effect on credit growth rate of cooperatives union in the study area.

Table 4: Model Summary [b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics		
					df1	df2	Sig. F Change
1	.794[a]	.630	.473	25.81543	12	215	.003

ANOVA [a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	19838.597	12	1653.216	2.481	.003[b]
	Residual	143283.876	215	666.437		
	Total	163122.474	227			

a. Dependent Variable: Credit growth rate

b. Predictors: (Constant), Accountability, Predictability, Transparency, Participation, Equity and inclusiveness, Consensus, Responsiveness, Control management, Legitimacy, Oversight

Table 5: Coefficients [a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	71.970	15.356		4.687	.000
	Accountability	2.290	2.831	.082	.809	.020
	Predictability	2.728	3.474	.096	.785	.000
	Transparency	-5.685	3.043	-.168	-1.868	.000
	Participation	.287	1.571	.015	.182	.005
	Equity and inclusiveness	-4.564	3.161	-.140	-1.444	.150
	Responsiveness	1.297	1.561	.085	1.172	.855
	Control management	9.106	2.986	.342	3.050	.003
	Legitimacy	-5.755	2.180	-.235	-2.640	.009
	Oversight	.167	.215	.056	.774	.440

The multiple regression output shows that out of 10 entered explanatory variables into the model seven of them found positive /negative significant at less than 5% significant level. While 3 of them found insignificant at 5% significant level but these insignificant independent variables have relationship with the dependent variable. The significant independent variable was interpreted and discussed here under the following (Table 5):

Accountability: The result shows that the independent variable has significant negative effect on the dependent variable net sale (β=2.290 t-value of 0.809 with a p-value of 0.020<0.05 that is significant at 5%. The positive size of the coefficient of the independent variables shows that a increase in accountability in the cooperative governance can cause increase in business performance (credit growth rate) by the 2.290 coefficients of the variables discussed above.

Predictability: the result indicates that predictability has a positive coefficient value of 2.728 and a t-value of 0.785 with a p-value of 0.000<0.001 that is significant at 5%; this implies that right planning is positively and significantly influencing the business performance (credit growth rate) of Cooperative Union Oromia region, Ethiopia (table 5).

Participation: Table 5 above, indicates that participation has a positive coefficient value of 0.287 and a t-value of 0.182 with a p-value of 0.005<0.05 that is significant at 5%; this implies that participation is positively and significantly influencing the business performance (credit growth rate) of Cooperative Union Oromia region, Ethiopia. It also means that an increase in the participation pillar, it increases the amount of the net sale of the cooperative union by 0.287.

Transparency: The result indicates that transparency has a negative coefficient value of -5.685 and a t-value of -1.868 with a p-value of 0.000<0.001 that is significant at 5%; this implies that transparency is negatively impacting the business performance (credit growth) of Cooperative Union Oromia region, Ethiopia. The finding indicates that less transparency of board of directors in the business activities will decrease the credit growth of the cooperative union in the study area (Table 5).

Control management: the result indicates that control management has a positive coefficient value of 9.106 and a t-value of 3.050 with a p-value of 0.003<0.05 that is significant at 5%; this implies that having good controlling mechanism over every business activity is positively and significantly influencing the business performance (credit growth) of Cooperative Union Oromia region, Ethiopia (Table 5).

Legitimacy: the result indicates that legitimacy has a negative coefficient value of -5.685 and a t-value of -2.640 with a p-value of 0.009<0.05 that is significant at 5%; this implies that legitimacy is negatively affecting the business performance (credit growth) of Cooperative Union. The finding indicates that less legitimacy of board of directors in the business activities will decrease the credit growth of the cooperative union in the study area (see Table 5 above).

Conclusions

The formulated hypotheses were tested using multiple regression model if the cooperative governance carries as significant effect on business performance of the selected cooperative unions in the study area. The findings from the multiple regression model revealed that all the variables were significant at less than 0.05 probability levels. This implies that the explanatory variables were found to have significant effect on the dependent variable measured in profit margin and credit growth rate. The findings of the study concluded that increase in boards governance proficiency positively affects business performance of cooperative unions due to strong control of the business activities of the cooperative union since use of strong control management lowers the extravagancy of resources and increases the efficiency of business performance of the sampled cooperative unions in Oromia regional state. The leaders of the cooperative union should give special attention to the equity and inclusiveness and legitimacy of board of directors and transparency of board of directors in the business activities.

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