

MEASURING CONTROL MECHANISMS FOR GOOD GOVERNANCE IN SELECTED MULTI-PURPOSE COOPERATIVE SOCIETIES AFFILIATED TO ROBI BARGA COOPERATIVE UNION, WEST SHOA ZONE, OROMIA REGIONAL STATE OF ETHIOPIA

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ABSTRACT

Cooperative societies employ a variety of governance control mechanism choices (GCMCs) those are the outcomes of control mechanisms which leads to good governance to protect themselves against various hazards of changes and reduce conflicts amongst the stakeholders pursuing the maximization of their welfare. In this study an attempt was made to measure control mechanisms for good governance in selected multipurpose cooperative societies affiliated to Robi Barga Farmers' Cooperative Union. This paper therefore, aims at exploring governance practices, assessing the relationship between internal and external control mechanisms and analyzing variables influencing GCMCs. To address these objectives, 150 respondents from 15 cooperative societies of two Districts were selected and collected primary data by administering semi structured interview schedule. The collected data were analyzed using SPSS (version 20) and simple statistics such as; frequency and percentages to describe the result, correlation were used to determine the degree to which the variables were interrelated. In addition, Multinomial logistic regression model was employed to determine factors that influence GCMCs. The findings show that poor application of good governance mechanisms, insufficient stakeholders' participation in governing cooperatives, inefficient committee members and lack of autonomy and independence were found to be the reasons for committee turnover which led to absence of good governance and resulted to increase in the rate of state intervention. The correlation analysis result shows that internal and external control mechanism have significant relationship and it implies the extent to which the external control system influences the activities of cooperatives positively. Finally, the multinomial logistic regression model results show that, GCMCs were influenced by business factors, constitutional factors and management factors. All gaps found would be addressed through collaboration of members, cooperative stakeholders, government and cooperative societies to bring ethical and good governance for sustainable development of cooperatives.

Key words: *Cooperative Governance, Cooperative Society, Governance Control Mechanism Choices, Good Governance.*

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INTRODUCTION

While globalization has provided new opportunities for economic and social development to countries around the world, it has left behind millions of people who live in countries where governments have not adjusted their priorities and actions to the emerging demands. Developing countries like Africa in general, face key challenges in various aspects of governance particularly that of cooperatives. Cooperatives across Africa were introduced by the colonial powers and typically ignored existing social and economic structures, many of which were based on informal cooperative organizations especially at the village level, and some cooperative traditions have been 'home-grown' within countries such as Ethiopia, with only a limited experience of colonization (Karthikeyan, and Nakkiran, 2011).

Cooperation is an age-old tradition that runs through the fabric of Ethiopian society, for centuries, the spirit of self-help has been an integral part of farming communities. Today we live in corporate power and globalization era that tends individual persons helpless. The most readily available opportunity by which the masses can enjoy and exercise corporate power is through vibrant cooperatives that are well managed. It is therefore, of paramount importance that cooperatives have governance and management structures together with a certain level of business ability for them to satisfy their shareholders (Dayanandan., 2013).

Cooperative governance represents a democratic system of direction, management, and control when the exercise of authority is delivered from its membership. Over a period of time after the cooperatives were created, a need for some law was felt to regulate the working of these cooperatives. Thus in Europe, the cooperative law was the creation of the cooperatives. Contrary to this, in most of the developing countries, the cooperatives were the creation of the cooperative law. This is because cooperatives in most developing countries especially African countries were established and promoted by the government as an agent of community development; the governments became active partners in the management and governance of cooperatives (Karthikeyan , 2008).

Good cooperative governance is governance that achieves the maximum level of economic performance compatible with the preservation or development of the cooperative identity, particularly maintaining democratic decision making principles (Rafael, et al., 2008). Strengthening the importance of participation, feeling of belongingness of members towards their cooperatives is essential for building good governance in cooperatives. An effective member participation and loyalty towards their cooperatives depends on good governance which involves linking with Members, Enacting Policies, Assuring Performance, and Dreaming the Future of the cooperatives by using best control mechanisms in order to achieve good performance. In Ethiopian case many cooperative societies including cooperative societies which are affiliated to Robi Barga Farmers' Cooperative Union faced the problem of governance control mechanisms and are also challenged with the pressure of internal control mechanisms as the same time the ability to manage their external system of governance with regards to their dependence on government support.

PROBLEM STATEMENT

The success of cooperative societies depend on the way that cooperative organization structured, apply good governance practice and have the best control mechanism in order to bring good governance. Good governance in cooperative is merely different and have unique character from that of other organizations where good cooperative governance will ensure that board and management pursue objectives that are in the interests of cooperatives and members, lead to effective monitoring of activities of societies, ensure efficient and effective use of available resources, reduce conflicts and increase accountability and transparency in cooperatives (Paula, 2013).

The sustainability of growth and development within cooperative societies are debatable in Ethiopia especially in sample cooperative societies. Out of 35 multipurpose cooperative societies which are affiliated to Robi Barga Farmers' Cooperative Union and serve their members in many directions most of them have been considered as dormant and almost non-operational. The problems arising in the governance of cooperative societies can be attributed to: managerial inefficiency of committee members, lack of commitment of committees, governance intervention within the cooperatives' business operation, absence of participation of stakeholders in three dimensions to govern cooperatives (Karthikeyan, et.al, 2014) and also it may be due to poor application of governance pillars as well as inability to use governance control mechanisms within their cooperatives.

There is a research gap, and in Ethiopian context this is a unique attempt. Therefore, this study tries to analyze governance control mechanism choices which bring good governance in cooperative societies as well as identify what factors determine those choices.

OBJECTIVES OF THE STUDY

The general objective of this study is to measure control mechanisms for good governance in selected multi-purpose cooperative societies. Meanwhile the specific objectives are as follows :-

- a) To explore governance practices in the sample cooperatives;
- b) To assess the relationship between internal and external governance mechanisms of the cooperatives; and
- c) To analyze the determinants of governance control mechanisms in cooperatives.

REVIEW OF LITERATURE

Cooperative Governance

Cooperative governance is a pure democratic self-governance system of managing a cooperative entity based on and in complying with the principles, values and philosophy of cooperation through the appropriate and effective organizational structure with conducive culture and ethical

climate, machinery that includes management and administrative professionals at various levels /layers of functioning within the parameters of legal provisions and policy framework of the government, keeping in view the prevailing socio-economic environment to change the administrative culture, management and control systems, and the mind-set and work culture of the members and work force of cooperative enterprises (Karthikeyan, 2008). Cooperatives provide a set of principles upon which new self-help cooperatives can emerge to autonomously and indirectly implement government policies. Such cooperatives, operating according to the principles of democracy and autonomy, can enable poor people to take control and ownership of the process to fight poverty and its causes (Cracogna, 2003).

The Four Pillars of Cooperative Governance

Cooperative governance framework encompasses the four pillars as key components of governance which are universally acceptable and applicable regardless of the economic orientation, strategic priorities, or policy choice of the government in question. These are: participation, transparency, predictability and accountability (Karthikeyan., 2006). Though, participation is needed to obtain reliable information and to serve as a reality check and watchdog for government action, transparency entails low-cost access to relevant information; predictability results primarily from laws and regulations that are clearly known in advance and uniformly and effectively enforced and accountability is state intervention that encourage the formation of social capital i.e., the stock of trust and information exchange at the base of civil society.

Governance Control Mechanisms

The governance system of an organization consists of a set of mechanism that enables the organization to achieve the common goals of its members/owners. Since organizations vary in terms of structure and the institutional environment in which they operate, the set of governance mechanisms available and the intensity of their use may differ from one organization to another (William, 2007).

According to Weimer and Pape, (1999) generally governance mechanisms fall into one of three categories; regulatory, external, and internal governance mechanisms that, when combined, provide a system of checks and balances. Organization control mechanisms are used to govern economic transactions between actors and alternative mechanisms for allocating resources and to determine the broad uses to which organizational resources will be deployed and the resolution of conflicts among the myriad of participants in organizations (Daily et al., 2003). In addition, these mechanisms are used to identify who is responsible for specific decisions, how the organization is to be managed, how objectives are identified and met, and how performance and the general oversight are managed.

However, in this paper the researcher takes governance control mechanism choices (GCMCs) those cooperative societies used to control over the system of governance with which their cooperatives attempt to bring good governance within the cooperative societies. These control

mechanism choices encompasses situations like; No Intervention, Chairman Change, Cashier Replacement and Management Committee Replacement by Cooperative Promotion Agencies those which are the outcomes of governance mechanisms that leads cooperatives to good governance. As per the cooperatives legislation, a cooperative society shall have an internal as well as external controller.

Internal Governance Mechanisms in Cooperatives

Internal control includes controlling by general assembly, Board of Directors /chairman/, management committees, internal auditors and internal controller which aims to achieve reasonable assurance of members' purpose, laws and regulations (Paula, 2013). The Board of Directors or Chairman and other Management bodies of the cooperative societies shall establish an internal control system to ensure efficiency and effectiveness of operations, reliability of financial reporting and compliance with appropriate laws and regulations.

While, General Assembly is the supreme body of cooperatives reflecting its democratic character and the guardian role of the cooperative identity it is composed of all the cooperative members who make decisions regarding election and remuneration of the members of the management and supervision governing bodies, as well as on major issues like closure of the cooperative, merging and changing the bylaws, and also the right to approve the annual financial report and getting to meet annual meeting, to appreciate the report, and for approve the next year plan of the activities. Internal auditor is the one who is responsible for: watching over the management of the company, ensuring that the law is upheld and the bylaws are observed, verifying the regularity of the books, accounting records and supporting documents and the accuracy of the financial statements, furnishing statements of opinion on the management report and accounts for the financial year (Anne Siayor, 2010).

External Governance Mechanisms in Cooperatives

External control includes external auditors, supervisors and evaluators or those who take the responsibility to organize and support to make cooperatives efficient. Formal legal and regulatory obligations are part of the external incentive structure designed to ensure that competing companies abide by common standards of fairness, transparency, accountability, and responsibility to protect shareholders, consumers, workers, the environment, and even competitors from abusive practices (Olawoye. et al., 2009). Cooperative governance regulates the relationship between members of cooperatives and the Board of representatives of members that manage on behalf of members. To the extent that formal institutions of the state and internal control mechanisms used by the organization do not entice management to act in a value-maximizing manner, the market for corporate control provides an additional means by which to reduce the costs associated with separation of ownership and control (William, 2007).

Good Governance

Good cooperative governance is defined as governance that achieves the maximum level of economic performance compatible with the preservation or development of the cooperative identity, particularly maintaining democratic decision-making principles (Rafael, et al., 2008). From that perspective, the great challenge for cooperative governance resides in making the following compatible: the democratic decision-making model economic performance, especially when the cooperative is experiencing economic growth and managerial development.

By democratic decision-making model it means the decisions that emanate directly from the General Assembly of Members, the fundamental meeting in cooperative governance, and indirectly through the members' representatives on the Board. Economic performance means that the level of fulfillment of the society's objectives, especially those of providing services to members, compatible with the economic stability of the society. Economic balance means that a society is both financially profitable and serves the interests of the members. Finally, Cooperative Balance, and therefore good cooperative governance, means a situation where both democratic balance and economic balance exist.

Good governance is a normative conception of the values according to which the act of governance is realized, and the method by which groups of social actors interact in a certain social context. The lack of a generally accepted definition of the concept is compensated by the identification of principles that strengthen good governance in any society. The most often enlisted principles include: participation, rule of law, transparency of decision making or openness, accountability, predictability or coherence, and effectiveness. The international donor community generally shares the view that these principles stand at the foundation of sustainable development (Debiel and Terlinden, 2004).

Good governance does not occur by chance. It must be demanded by citizens and nourished explicitly and consciously by the nation state. It is, therefore, necessary that the citizens are allowed to participate freely, openly and fully in the political process. The citizens must have the right to compete for office, form political party and enjoy fundamental rights and civil liberty. Good governance is accordingly associated with accountable political leadership, enlightened policy-making and a civil service imbued with a professional ethos. The presence of a strong civil society including a free press and independent judiciary are pre-conditions for good governance (Balmiki, 2006).

Many authors define the term good governance as different aspects; some define it by its effectiveness, efficiency, accountability, exchange and free flow of information (transparency), and its legal framework, and others define as participative manner of governing that functions in a responsible, accountable and transparent manner based on the principles of efficiency, legitimacy and consensus for the purpose of promoting the rights of individual citizens and the public interest, thus indicating the exercise of political will for ensuring the material welfare of society and sustainable development with social justice.

Generally good governance can create an effective political framework conducive to private economic action those stable regimes, the rule of law, efficient State administration adapted to the roles that Governments can actually perform and a strong civil society independent of the State. The governance in cooperatives has to ensure that they effectively respond to the needs of various stakeholders, especially the members-owners who are the most important stakeholder group in cooperatives (Prathap, et al., 2004).

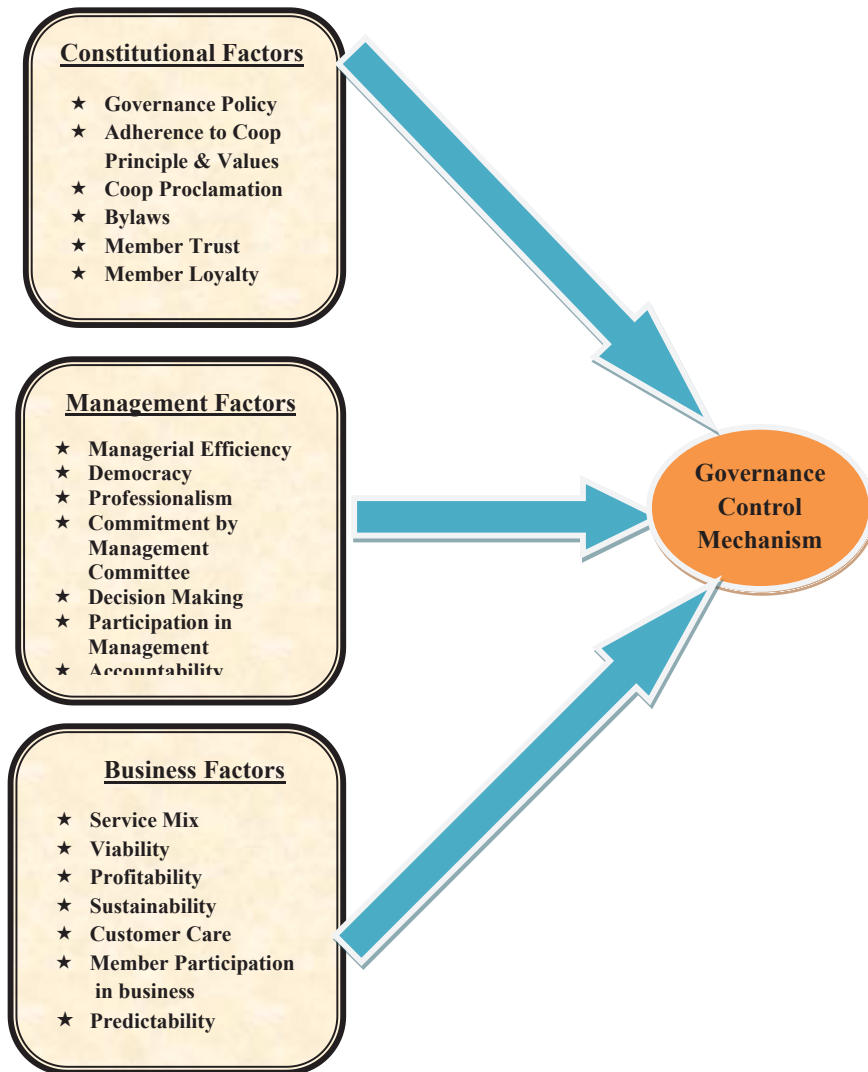
Determinants of Governance Control Mechanisms

Many scholars try to show factors that hinder the quality of good governance by explaining and defining in detail how economic, political, social factors as well as governance pillars can influence governance control mechanisms. Especially Paula (2013) tries to identify factors that hinders governance control mechanism choices by computing business transactions of the cooperatives and show how the outcomes demonstrate that external governance mechanisms that present greater efficiency in disciplining Cooperatives Governance Model management than internal control mechanisms.

The governance system of an organization, therefore, consists of a set of mechanisms that enable the organization to achieve the common goals of its members/owners. Since organizations vary in terms of structure and the institutional environment in which they operate, the set of governance mechanisms available and the intensity of their use may differ from one organization to another. Generally, governance mechanisms fall into one of three categories regulatory, external, and internal governance mechanisms that, when combined, provide a system of checks and balances (Weimer et al., 1999).

For the purpose of this study determinant factors of governance control mechanism choices are constitutional factors, business factors and management factors. Constitutional factors (government policy, adherence to coop principles and values, coop proclamation, members loyalty, bylaw and member trust) are those factors that consists of the legal system in which government regulate the cooperatives. Business factors (service mix, business viability, profitability, sustainability, customer care, member business participation and business prediction) are those factors that determine the governance control mechanism choices in such a way that indicate inefficient committees in business operation of the cooperatives. Management factors (managerial efficiency, democracy, professionalism, commitment by management, decision making, participation in management, accountability and transparency of committees) are those factors that show committees play pivotal role in their progress.

Conceptual Framework



Source: Authors' sketch based on literature review, 2015

Figure: 1 Conceptual Framework of Governance Control Mechanisms

Table:1 Definitions of the variables used for control mechanisms

Variables	Definitions	Measurements
GCM	Dependent Variable used in Multinomial logit	0 = No intervention 1 = Chairman Change 2 = Cashier Replacement 3 = Management Committee Replacement by CPA
Independent Variables		
GPO	Government policy	Binary, 1= if conducive 0= otherwise
ADHER	Adherence to coop Principles and Values	Three distinct , 2= if more adherence to coop principles and values , 1= adherence 0= otherwise
CPRO	Cooperative proclamation	Binary, 1= if Supportive 0= otherwise
BYL	Bylaw	Binary, 1= if Supportive o= otherwise
MT	Member trust	Binary, 1= if trust 0= otherwise
MLOY	Member loyalty	Binary, 1=if loyal 0=otherwise
SMX	Service mix	Binary, 1=if Satisfied 0= otherwise
VIABL	Viability of coop business	Binary, 1= if viable 0= otherwise
PRFT	Profitability of the cooperatives	Binary, 1= if profitable 0= otherwise
SASTN	Sustainability of the business	Binary, 1= if sustainable 0= otherwise
MPRT	Member participation in business activities	Three Discrete, 2= more participation, 1= participation and 0= no participation
CC	Customer Care	Binary, 1= if customer care 0= otherwise
PRDCT	Predictability of business	Binary, 1= if prediction in business 0= otherwise
MGREF	Managerial efficiency related with conceptual / technical skill	Three, 2= more efficient, 1= efficient and 0= not efficient
DEMO	Democracy of management bodies	Three, 2= more democratic, 1= democratic and 0= otherwise
PROF	Professionalism of mgt bodies	Binary, 1= if Professionalism 0= otherwise

COMIT	Commitment by management committee	Binary, 1= if committed 0= otherwise
DM	Decision making of mgt committee	Binary, 1= if timely a decision 0= otherwise
PART	Participation in management	Three, 2= Active participation, 1= Moderate and 0= no participation
ACCT	Accountability of management	Binary, 1= if accountable 0= otherwise
TRNSP	Transparency of management	Binary, 1= if transparent 0= otherwise

METHODOLOGY OF STUDY

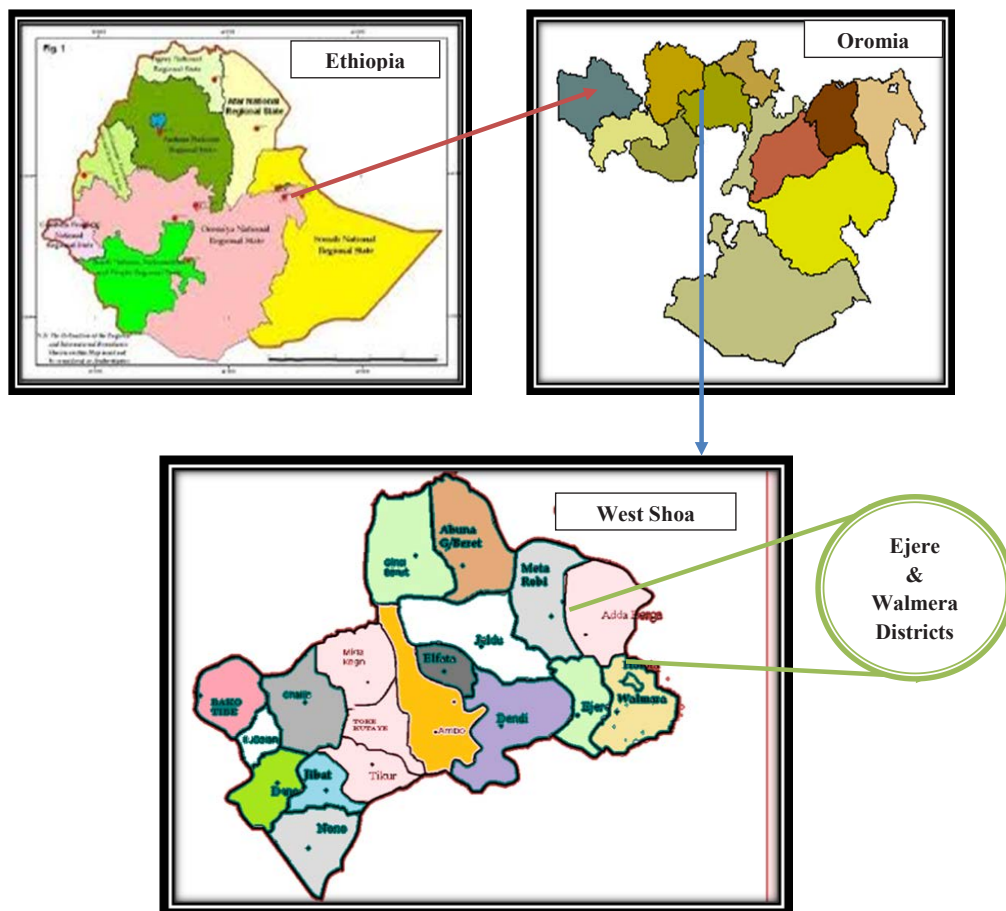
Description of the Study Area

West Shoa is one of the zones of the Oromia Regional State that is located at the central part of the state. Neighboring zones of West shoa are: Amhara Region in the North; East Wollega and Horo Guduru zones in the West and North West; Jimma zone in South West; South West Shoa zone in South East; and North Shoa zone in South East. Walmera and Ejere Woredas are districts in West Shoa Zone Oromia Regional state of Ethiopia. The districts are bordered on the North Meta Robi and Ada Berga, on the South by South West Shoa Zone Woredas, at West by Jeldu and Dandi and at East by Addis Ababa.

Agro Ecology: the altitude of West Shoa zone ranges from 1166 to 3238 meters above sea level (masl), where the largest area lies between 2300 and 2630 masl. The topography of the zone, which is mainly leveled field, makes it an ideal place for agriculture. Temperature ranges from 11-21°C and rainfall from 880-1200mm. There are three main drainage basins in West shoa zone: Abay, Ghibe and Awash. In addition, there is high potential for ground water and smaller rivers like Barga.

Population of the study was based on data obtained from Robi Barga Farmers Cooperative Union profile. The Union was established in 1995 E.C. by 10(ten) Primary Cooperatives of four Districts (Adda Barga, Walmara, Meta Robi and Ejere) with the members of Male 8,586 Female 997 Total 9,483 and the initial capital of 90,000 ETB. At this time the Union has 55 Primary Cooperative Societies with the members of Male 23,102 Female 3,415 Total 26,517 and the current total capital is 5.1million ETB. The Union runs different business operations relative with other cooperative Unions in West Shoa Zone which serves four districts (WSZAO, 2014).

Figure: 2 Map of the study area



Source: Zonal diagnosis and intervention plan (LIVES) West Shoa, Oromia, 2014

Sampling Design and Sample Technique

Survey method was adopted. The study was conducted in West Shoa Zone particularly two Woredas (Walmera and Ejere) which was selected purposively due to accessibility of data and practicing governance control mechanism choices. Robi Barga Farmers' Cooperative Union which covered Four Woredas (Ada Barga, Meta Robi, Ejere and Walmera) with 55 cooperative societies. For the study purpose from two Woredas (Ejere and Walmera) 15 sample cooperative societies were selected randomly. From these 15 cooperative societies all management committees (seven of them) and all three control committees totaling 10 (ten) committee members were selected as sample respondents since they are closer to the governance control mechanism practice. The respondents of the study were 150. Key Informant Interview (KIIs) was conducted with five informants; from two Districts and one official from the Union was also included as key informant for this research.

Types and Sources of Data

To meet the objectives of the study both primary and secondary data were required and it comprises both qualitative and quantitative approaches. The primary data required for this study was collected from sample respondents using a semi-structured interview schedule and through check list for key informants. Secondary data was collected from published and unpublished documents of the cooperative societies as well as Cooperative Promotion Agencies.

Method of Data Collection

Interview schedule was employed to obtain; how governance is practiced, what control mechanism choices did apply and how it tends to bring good governance, what is the relationship between internal and external control mechanism as well as what factors influence governance control mechanism choices by contacting their committee members in selected cooperative societies. In addition key-informant interview was employed among experts to get supplement information at hand and to make sure that they have deep knowledge about governance system as well as the critical problems that determine governance control mechanism choices. Training was given to the enumerators about method of data collection and the contents of semi structured interview schedule. Data collection started after the approval of proposal from sample cooperatives, Woredas Cooperative Promotion Office as well as from the Union.

Method of data Analysis

The collected data were analyzed by Statistical Package for Social Science (SPSS version 20) qualitatively as well as quantitatively. Thus, descriptive statistics such as frequency and percentages were used to describe governance practices in sample cooperatives for the first objective. For the second objective, correlation was used to determine the degree to which two variables were related. Multinomial logit (MNL) model was employed to determine the factors that influence governance control mechanisms choices.

The generalized linear modeling technique of Multinomial logistic regression could be used to model unordered categorical response variables. This model could be understood as a simple extension of logistic regression that allows each category of an unordered response variable to be compared to an arbitrary reference category providing a number of logit regression models. This approach has been applied in sample cooperative societies in line of other studies especially on Agriculture and Rural Development and Agricultural Credit Cooperatives (Joshi and Bauer, 2006, Paula, 2013).

The Multinomial logit is used since the dependent variable takes on more than two discrete outcomes. In this study it assumed values of 0, 1, 2, and 3 which reflecting four different situations, respectively: (0) No intervention; (1) Chairman change; (2) Cashier Replacement and (3) Management Committee Replacement by the Cooperative Promotion Agency. The value of each event in the 't' period was determined according to the behavior of the cooperative societies

affiliated to Robi Barga Farmers' Cooperative Unions in the 't+1' period. To address determinant factors of governance control mechanisms the study used the following empirical model formula. And the model was used to analyze the factors influencing the choices of governance control mechanisms. The MNL is based on random utility model which used by (Joshi and Bauer, 2006). The utility U to committee members' for choosing a particular alternatives was specified as a linear function of the cooperatives and governance characteristics (β) and the attributes of that alternative (X) as well as a stochastic error component (e):

$$U = \beta X + e \dots\dots\dots (1)$$

Suppose the observed outcome (DV) is choices j . This implicates for a given members. $U \text{ alternative } j > U \text{ alternative } k \forall k = j, \text{ or}$

$$\beta X_j + e_j > \beta X_k + e_k \quad \forall k \neq j \dots\dots\dots (2)$$

The probability of choosing an alternative is equal to the probability that the utility of that particular alternative is greater than or equal to the utilities of all other alternatives in the choice set. Let the probability that the i^{th} cooperative chooses the j^{th} control mechanisms be P_{ij} and denote the choice of the i^{th} cooperative by $Y^i = (Y_{i1}, Y_{i2}, \dots, Y_{ij})$ where $Y_{ij} = 1$ if j^{th} control mechanism choice was selected and all other elements of Y^i are zero. If each committee members was observed only a single time, the likelihood function of the sample of values Y_{i1}, \dots, Y_{ij} is;

$$L = \prod_{i=1}^T P_{i1}^{Y_{i1}} P_{i2}^{Y_{i2}} \dots P_{ij}^{Y_{ij}} \dots\dots\dots (3)$$

Assuming that the errors across the control mechanisms choices (e_{ij}) are independent and identically distributed leads to the following multinomial model.

$$P\{y_i = t\} = \frac{\exp(X_{it}' \beta)}{1 + \exp(X_{i2}' \beta) + \dots + \exp(X_{ij}' \beta)} = \frac{\exp(X_{it}' \beta)}{1 + \sum_{j=2}^J \exp(X_{ij}' \beta)} \dots\dots\dots (4)$$

The multinomial logit model is used to predict the probability that cooperatives go to a certain preferences of control mechanisms choices and how that choices are conditioned by different cooperatives societies and management bodies characteristics and attributes of the control mechanisms valued by the management committee members'. To find the marginal effects of the individual management committees characteristics the probability was used the formula as;

$$\frac{\partial P_j}{\partial X_j} = P_j \left[\beta_j - \sum_{k=0}^j P_k \beta_k \right] = P[\beta_j - \beta'] \dots\dots\dots (5)$$

The MNL model is general enough to be useful as a tool for studying circumstances faced by management bodies and different problems encountered in the context of choice among multiple control choices.

FINDINGS

Governance Practices in Cooperative Societies

From the analysis made the following findings were drawn:

- The existence of governance practice in sample cooperative societies from the finding, the application of good governance was poor (low and moderate) and the rate of practices of the four pillars such as; accountability, participation, transparency and predictability also was low and moderate practiced in cooperative management.
- The rate of stakeholders' participation in governing cooperatives was poor. Poor participation of stakeholders as well as poor practices of the four pillars in cooperative management leads to increase committees' turnover rate within their cooperatives.
- The necessary situations make committees go to choices in sample cooperative societies were due to committees' inefficiency, natural replacement, force replacement and promotion accordingly.
- Rate of governance or external controllers intervention while turnover takes place were high and make cooperatives could not enjoy autonomy and independence as per the cooperative principles by considering last five years committees' turnover assessment.

Relationship between Internal and External Control Mechanisms

The researcher observed the relationship between Internal and External Control Mechanisms of sample cooperative societies by bivariate correlation analysis to determine the degree to which two variables are interrelated. This relationship illustrate how do cooperatives societies and state have linkage in order to promote cooperatives as well as make cooperatives a base for the country's development and to bring sustainable development within the cooperatives. The following table presents the correlation analysis of internal and external control mechanisms of sample cooperative societies.

Table 2: Correlation analysis of Internal and External Control Mechanism

Internal Control Mechanism		External Control Mechanism	
		Assigning of external auditors	Governance control over the activities of the coop society
Members' control over their coop society	Pearson Correlation	.149*	.033
	Sig. (2-tailed)	.069	.687
	N	150	150
Qualification and the independence review of internal auditors by committee members	Pearson Correlation	.012	.162**
	Sig. (2-tailed)	.882	.048
	N	150	150
Committee members' decision making	Pearson Correlation	.249***	.088
	Sig. (2-tailed)	.002	.282
	N	150	150
Internal control mechanism as a measure of how coops stakeholders work together	Pearson Correlation	.087	.060
	Sig. (2-tailed)	.289	.466
	N	150	150

Source: *Computed from field survey data, 2015*

Note: *. *Correlation is significant at the 0.1 level (2-tailed).*

**. *Correlation is significant at the 0.05 level (2-tailed).*

***. *Correlation is significant at the 0.01 level (2-tailed).*

Results for Correlation analysis of Internal and External Control Mechanisms

When to compute the result from correlation analysis of internal and external control mechanism; members' control over their cooperative societies and assigning external auditors by external body have positive relationship at 10% significant level. This implies that when the internal control mechanisms of the cooperatives increases as the same time the members have access to control over their cooperatives the state support became increase.

Qualification and the independence review of internal auditors by committee members have positive relationship with state control over the activities of the cooperative societies at 5% significant level. This indicates when the strength of committee members' internal auditors qualification and independency assessment increase the government control over the activities of cooperatives became increase, i.e. the government increase its support for cooperatives in order to bring self-reliance within cooperatives.

Committee members' decision making in cooperative society and assigning of external auditors in cooperatives have positive relationship at 1% significant level. This shows when the ability and responsibility of committees' decision making to assign internal auditor increase the assigning of external auditors within the cooperatives by agreement with committees became increase as

well as external auditors report to committee members became increase and the external bodies do not force committees to do so.

Therefore, as observed from the correlation analysis, internal control mechanisms and external control mechanisms have statistical significant relationship and it implies that how much external control system or governance control system influence the activities of cooperatives positively.

Factors that Determine Governance Control Mechanism Choices (GCMCs)

Cooperative societies employ a variety of governance control mechanism choices (those are the outcomes of control mechanisms which leads to good governance) to protect themselves against various hazards of change, and governance control mechanisms are also the organizational controls that reduce conflicts amongst the stakeholders pursuing the maximization of their welfare. However, for this research determinant factors that influence governance control mechanism choices could be factors such as; constitutional factors, managerial factors and business factors.

Governance Control Mechanism Choices (GCMCs)

The governance system of an organization consists of a set of mechanisms that enable the organization to achieve the common goals of its members/owners. Since organizations vary in terms of structure and the institutional environment in which they operate, the set of governance mechanisms available and the intensity of their use may differ from one organization to another (William, 2007). The following table presents the responses given by the respondents on governance control mechanism choices exercised by cooperatives.

Table 3: Governance Control Mechanism Choices (GCMCs)

Governance Control Mechanism Choices	Frequency	Percent
No Intervention	34	22.7
Chairman Change	36	24.0
Cashier Replacement	54	36.0
Mgt Committee Replacement by CPA	26	17.3
Total	150	100.0

Source: Computed from field survey data, 2015

The survey result shows that majority 54 (36.0%) respondents reported that Cashier Replacement took place in their cooperative societies, followed by 36 (24.0%) as Chairman Change took place, 34 (22.7%) reported there was No Intervention while committees turnover takes place in their cooperatives, and 26 (17.3%) reported that management committee replacement took place by Cooperative Promotion Agency.

As it was observed from the result the frequency of the cashier replacement and chairman change is higher than the others, due to the nature of responsibility assigning to them.

Determinant Factors Influencing Governance Control Mechanism Choices: Multinomial Logit (MNL) Model Results

Multinomial logit (MNL) model was employed to determine the factors that influence governance control mechanism choices of sample cooperative societies in line with other studies especially on Agriculture and Rural Development and Agricultural Credit Cooperatives (G. Joshi and S. Bauer, 2006 and Paulla C, 2013).

The MNL model is used, reflecting the values of dependent variable, four different situations with its value (0=No Intervention, 1=Chairman Change, 2=Cashier Replacement and 3=Management Committee Replacement by CPA). In regression analysis the fourth choice (Mgt committee replacement by CPA) take as reference category. The results out of MNL model is presented in the following table 4.20.

Table 4: Determinant Factors of Governance Control Mechanism Choices: Multinomial logit (MNL) Model

Parameter Estimates							
Governance Control Mechanism Choices ^a	B	Std. Error	Wald	Df	Sig.	Exp(B)	
No Intervention	Intercept	-23.802	723.251	.001	1	.974	
	Membrloyl	6.606	1.928	11.746	1	.001***	739.610
	Busnsviab	6.289	2.344	7.198	1	.007**	538.556
	Busnsproft	4.439	2.559	3.010	1	.083*	84.723
	Busnssustn	-4.967	1.579	9.894	1	.002***	.007
	Custcare	10.568	4.480	5.564	1	.018**	38886.212
	Demomgt	-6.810	2.136	10.167	1	.001***	.001
	Comitmtgt	-5.768	3.163	3.327	1	.068*	.003
	[Adhertocooprinc=.00]	3.677	1.905	3.725	1	.054*	39.534
	[Adhertocooprinc=1.00]	.285	1.808	.025	1	.875	1.330
[Adhertocooprinc=2.00]	0 ^b	.	.	0	.	.	
Chairman change	Intercept	10.855	5.244	4.285	1	.038	
	Coopbylw	3.711	2.249	2.721	1	.099*	40.883
	Membrsatsfy	-5.987	2.647	5.115	1	.024**	.003
	Busnsviab	5.266	2.462	4.575	1	.032**	193.645
	Busnsproft	-3.833	2.067	3.438	1	.064*	.022
	Busnssustn	-4.190	1.442	8.442	1	.004**	.015
	Custcare	10.074	4.367	5.321	1	.021**	23714.664
	Busnsprdt	-3.935	1.793	4.816	1	.028**	.020
	Trnsp	-2.761	1.632	2.864	1	.091*	.063
Cashier Replacement	Intercept	25.496	1538.052	.000	1	.987	
	Membrloyl	4.019	1.720	5.461	1	.019**	55.623
	Membrsatsfy	-6.366	2.559	6.189	1	.013**	.002
	Busnsviab	5.453	2.278	5.728	1	.017**	233.426
	Busnssustn	-5.125	1.473	12.113	1	.001***	.006
	Custcare	14.006	4.587	9.322	1	.002***	1209585.981
	Busnsprdt	-3.458	1.694	4.168	1	.041**	.032
	Demomgt	-3.233	1.730	3.490	1	.062*	.039
	Comitmtgt	-8.174	3.725	4.815	1	.028**	.000

Source: Computed from field survey data, 2015

Note: a. The reference category is: Mgt committee replacement by CPA.
b. This parameter is set to zero because it is redundant.
c. Floating point overflow occurred while computing this statistic. Its value is therefore set to system missing.
*: is significant at the 0.1, **: is significant at the 0.05 level and ***: is significant at the 0.01 level.

Twenty one independent variables were entered in to MNL model and the results out of MNL regression implies that the likelihood ratio chi-square of 182.216 at df 69 with p-value < 0.0001 tells that the model as a whole fits significantly better than an empty model.

Results for No Intervention as a choice Governance Control Mechanism

One unit increase in the variable members' loyalty to their cooperatives is associated with a 6.606 increase in the relative log odds of being in No Intervention choice. One unit increase in the variable cooperatives' business viability is associated with a 6.289 increase in relative log odds of being in No Intervention choice. One unit increase in the variable cooperatives' business sustainability is associated with a -4.968 decrease in the relative log odds of no intervention choice. One unit increase in the variable customer care is associated with a 10.568 increase in the relative log odds of being in No Intervention choice. One unit increase in the variable democratic management of committees' is associated with a -6.810 decrease in relative log odds of being in No Intervention choice. One unit increase in the variable commitment by management committee is associated with a -5.768 decrease in relative log odds of being in No Intervention choice. One unit increase in the variable committee's adherence to cooperative principles and values is associated with a 3.677 increase in relative log odds of being in No Intervention choice. One unit increase in the variable committee's adherence to cooperative principles and values is associated with a 0.285 increase in relative log odds of being in No Intervention choice. The relative log odds of being in No Intervention choice versus in committee's adherence to cooperative principles and values will increase by 3.677 if moving from the highest level of adherence to lowest level of no adherence.

Results for Chairman Change as a choice of Governance Control Mechanism

One unit increase in the variable cooperatives' bylaw supportive to cooperative societies is associated with a 3.711 increase in relative log odds of being in Chairman Change as a choice. One unit increase in the variable member satisfaction that provided by cooperatives is associated with -5.987 decrease in relative log odds of being in Chairman Change choice. One unit increase in the variable cooperatives' business viability is associated with a 5.266 increase in relative log odds of being in Chairman Change choice. One unit increase in the variable cooperatives' business profitability is associated with a -3.935 decrease in relative log odds of being in Chairman Change choice. One unit increase in the variable cooperatives' business sustainability is associated with a -4.190 decrease in relative log odds of being in Chairman Change choice. One unit increase in the variable customer care is associated with a 10.074 increase in relative

log odds of being in Chairman Change choice. One unit increase in the variable committees' business predictability is associated with a -3.935 decrease in relative log odds of being in Chairman Change choice. and also One unit increase in the variable committees' transparency is associated with a -2.761 increase in relative log odds of being in Chairman Change choice. One unit increase in the variable members' loyalty towards their cooperatives is associated with a 4.019 increase in relative log odds of being in Cashier Replacement choice. One unit increase in the variable members' mix or members' satisfaction with services that provide by their cooperatives is associated with a -6.366 decrease in relative log odds of being in Cashier Replacement choice. One unit increase in the variable cooperatives' business viability is associated with a 5.453 increase in relative log odds of being in Cashier Replacement choice. One unit increase in the variable cooperatives' business sustainability is associated with a -5.125 decrease in relative log odds of being in Cashier Replacement choice. One unit increase in the variable customer care is associated with a 14.006 increase in relative log odds of being in Cashier Replacement choice. One unit increase in the variable cooperatives' business predictability is associated with a -3.458 decrease in relative log odds of being in Cashier Replacement choice. One unit increase in the variable democracy of management committee is associated with a -3.233 decrease in relative log odds of being in Cashier Replacement choice. One unit increase in the variable commitment by management committee is associated with a -8.174 decrease in relative log odds of being in Cashier Replacement choice.

Results for Choices Vs Reference category

The relative log odds of being in No Intervention and Cashier Replacement versus in Management Committee Replacement by Cooperative Promotion Agency will increase by 6.606 if moving from more members' loyalty to less members' loyalty. The relative log odds of being in No Intervention and Cashier Replacement versus in Management Committee Replacement by Cooperative Promotion Agency will decrease by -6.810 if moving from more democratic management of committees to less democratic management of committees. The relative log odds of being in No Intervention and Cashier Replacement versus in Management Committee Replacement by Cooperative Promotion Agency will decrease by -8.174 if moving from more commitment by management committees to less commitment by management committees.

The relative log odds of being in Chairman Change and Cashier Replacement versus in Management Committee Replacement by Cooperative Promotion Agency will decrease by -3.935 if moving from the presence of business predictability to absence of business predictability. The relative log odds of being in No Intervention, in Chairman Change and Cashier Replacement versus in Management Committee Replacement by Cooperative Promotion Agency will increase by 14.006 if moving from the presence of customer care to absence of customer care. The relative log odds of being in Chairman Change and Cashier Replacement versus in Management Committee Replacement by Cooperative Promotion Agency will decrease by -6.366 if moving from more member satisfaction to less member satisfaction.

The relative log odds of being in No Intervention, in Chairman Change and Cashier Replacement

versus in Management Committee Replacement by Cooperative Promotion Agency will increase by 6.289 if moving from the presence of business viability to absence of business viability. The relative log odds of being in No Intervention, in Chairman Change and Cashier Replacement versus in Management Committee Replacement by Cooperative Promotion Agency will decrease by -5.125 if moving from the presence of business sustainability to absence of business sustainability.

The result of MNL regression analysis denotes that there are different variables influencing governance control mechanism choices of Walmera and Ejere districts cooperative societies and these variables have the effects in ensuring control mechanism within the cooperatives in order to bring good governance. The association between variables is described as very strong to weak depending on the type of variables under consideration.

To sum up, the result of the data analysis shows that governance practices in sample cooperatives was low and it results poor application of good governance, insufficiency stakeholders' participation in governing cooperatives, inefficiency committee members and lack of autonomy and independence were found to be the reasons for committees turnover which lead to absence of good governance and resulted to increase the rate of state intervention. The internal and external control mechanisms have significant relationship and it implies the extent to which the external control system influences the activities of cooperatives positively. The MNL model analysis result shows that governance control mechanism choices were influenced by business factors (service mix, business viability, business profitability, business sustainability, business predictability and customer care), constitutional factors (committees' adherence to cooperative principles and values, cooperative bylaw, member loyalty) and also by management factors (democratic management of committees and commitment by management committee). Finally the result of multinomial regression analysis model indicates the above variables are statistically significant and influence governance control mechanism choices positively as well as negatively.

CONCLUSIONS AND RECOMMENDATIONS

The result of the data analysis shows that existence of governance practices in sample cooperatives was low and it results poor application of good governance mechanisms, insufficiency stakeholders' participation in governing cooperatives, inefficiency of committee members and lack of autonomy and independence were found to be the reasons for committees turnover which lead to absence of good governance which resulted to an increase in the rate of state intervention. Internal and external control mechanisms have significant relationship and it implies the extent to which external control system influences the activities of cooperatives positively. The result of this study shows that governance control mechanism choices were more influenced by business factors such as; service mix, business viability, business profitability, business sustainability, business predictability and customer care, by constitutional factors such as; committees' adherence to cooperative principles and values, cooperative bylaw, member loyalty. And also it was influenced by management factors such as; democratic management of committees and commitment by management committee. The result of multinomial regression analysis model

indicates the above variables are statistically significant and influence governance control mechanism choices negatively as well as positively. This result shows among those three factors Business Factors were the highest determinant than Management Factors and Constitutional Factors; on the other hand Business Factors is the main and crucial factors that make committee members goes to choices. To conclude, there are four different governance control mechanism choices practiced by the sample cooperatives, which are influenced by certain factors. The cooperatives should consider those factors in order to reduce the turnover of committees to enhance good governance.

Based on the findings the following recommendations are forwarded to enhance good governance in cooperatives.

- Cooperative societies have low and moderate practices of governance pillars and all stakeholders do not participate well in three dimensions in governing cooperatives. So there is a need to capacitate cooperatives and stakeholders to play their role and responsibilities through facilitating cooperative training and cooperative education.
- Necessary situations that make committees' choices were due to committees' inefficiency, natural replacement, force replacement and promotion cases while committees' turnover took place. The rate of government intervention while committees' turnover took place was high. It is therefore necessary to shape all cooperatives in order to overcome unnecessary government intervention and strengthen cooperatives to have efficient committee members.
- It was also found that the internal and external control mechanisms have significant relationship positively to each other. It should be maintained to achieve good governance in cooperatives.
- It was realized that constitutional variables next to business variables could influence the governance control mechanism choices more than that of management variables. As such, it is important to stress on those factors to overcome the problems. These committee members should participate more on constitutional and management dimensions of cooperatives.
- Poor transparency, commitment by management and democracy of committee members while making decision in cooperatives influence the choices. It warrants improving awareness of committees to be transparent for all stakeholders, committed by management and also should be transparent in decision making process.
- Low level of adherence to cooperative principles and values and low member loyalty in cooperative results in decrease No Intervention choice. So it is necessary to shape these conditions while they are very important to govern cooperative societies according to bylaws, cooperative principles and values.
- Chairman Change as a governance control mechanism choice takes place when cooperatives had poor service mix, lack of business viability, lack of business profitability, absence of business sustainability, and lack of customer care and absence of business predictability within cooperatives. Thus, it is better to create business awareness for cooperative stakeholders to make the cooperatives sustainable.
- All gaps indicated above would be addressed through collaboration of members, cooperative stakeholders, and government. From the members' side: high involvement in all activities of their cooperative business as well as managing their cooperatives; from committees'

commitment by management, timely decision making, playing their roles, play their role and responsibilities as per the bylaws; and cooperative principles and values; from the government side: building a sense of ownership among members, maintain conducive environment by supporting cooperatives are recommended for cooperatives to bring ethical and good governance for sustainable development.

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