Corporate Governance Practices and Performance of Consumer Cooperative Societies in Addis Ababa, Ethiopia

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Abstract

The objective of the study is to describe the governance practices and challenges of the consumer's cooperative societies and examine whether governance has significant impact on the performance of the cooperatives in Addis Ababa City. The study considered various corporate governance components such as board size, board members educational qualification, and gender diversity, as well as the frequency of board meeting. It adopted a quantitative research approach and analyzed data using multiple linear regression function. The findings of the study indicated that the principles of corporate governance were adequately considered in the governance of the consumer's cooperatives under investigation. The study identified lack of commitment and leadership of board of directors; shortage of supplies of goods and services and incompetent audit committees of the consumer cooperatives as challenges that the consumer's cooperatives facing. The finding also indicated that all the dimensions of corporate governance such as educational qualification of board members, board size, gender diversity of board members and meeting frequency have significant impact on the performance of consumer's cooperatives. Based on the result of the study it is recommended that a separate cooperative governance code should be developed. The board of directors and the members should be trained to improve the performance of the cooperatives and a policy should be designed to encourage the participation of females in the board.

Keywords: *Consumer's cooperative, corporate governance mechanisms, cooperative performance, Ethiopia*

1 INTRODUCTION

1.1 Background of the Study

Corporate Governance is the relationship between company's stakeholders such as corporate manager, directors and the providers of equity, customers and institutions (Mehran 2003; Goergen and Renneboog, 2006). The failure of

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several corporations (E.g. Enron, Tyco, Parmalat, Skandia, Lehman Brothers, etc) in the last decade gave a clear lesson for investors that companies should investigate further the status of their governance structure to increase transparency and to guarantee shareholders' reliance on directors and managements (Hermalin & Weisbach, 2012). The major accounting failures which had been seen in various companies throughout the world have affected the investors' confidence and raised various questions on the effectiveness of a company's internal control and governance system (Lamport *et al.*, 2011). Fair and transparent business environment is assured by good corporate governance. Good corporate governance is a good mechanism to held companies to be accountable for their action. On the other hand weak corporate governance exposes companies for corruption, mismanagement and waste. Cooperative societies have similar structure with Modern Corporation. Both have a separate legal existence from their owners (shareholders). The cooperative to be governed and managed properly, the shareholders or members of cooperative should elect board of directors to whom they delegate most of their authority.

Consumer cooperatives are expected to provide essential consumer goods and service to the members. Fair prices, high quality products and reliable services are expected from the consumer cooperatives. In Ethiopia, there is high population growth and due to this factor there is also an increase of demands for goods and services. The consumers are also exposed for unfair price increment from the side of the retailers. Inflation and price fluctuation is also a prevalent situation in the country. Therefore, to regulate these critical problems, the establishment of consumer cooperatives is vital (Kanagaraj & Mosisa, 2015). Currently there are 141 basic consumer cooperatives that are operational in 10 sub cities in Addis Ababa. Initially the cooperatives were established with a contributed share capital of birr 66.9 million and currently the cooperatives have more than 498.7 million birr in current and fixed capital. From the outset the cooperatives were established with 218,468 founding members, however, currently the cooperatives have grown and the number of members exceeded 4 hundred thousand (Addis Ababa City Cooperative Agency, 2008).

Currently, bad governance and poor economic conditions are the main challenges of cooperatives. Even though the corporate governance agenda has been given a wide attention, the governance situation of those cooperative forms of business couldn't get the required attention and the governance problems couldn't be studied well. The cooperative businesses contribute for developing countries social and economic development in creating employments and funds (Shaw, 2006). The Addis Ababa city consumer cooperative associations are providing essential services to members and local residents; however the cooperatives have not been able to provide the required goods and services due to the internal and external problems (FCA & Addis Ababa Trade & Industry Office, 2014). This study recognizes past similar studies conducted in the area of corporate governance in other type of organization in Ethiopia. However, their findings were inconsistent. All researches haven't examined the governance aspects of the consumer cooperatives and its effects on the performance of the cooperatives. There is hardly any literature that has focused on the practice of corporate governance and the performance of consumer cooperative societies. While there has been a growing interest in the research of corporate governance and the effect of performance in Ethiopia, nearly all of them focused in the financial institutions (Harun, 2017; Fekadu, 2017; Ashenafi *et al.*, 2013). Other studies on consumer cooperatives in Ethiopia are not related with the subject of corporate governance (Hailu, 2012; Kanagaro & Mosisa, 2015). There is a scanty of empirical study on the practices of corporate governance and its potential effect on the performance of the consumer cooperatives. This study, therefore, aims to identify the nature of corporate governance practices adopted by the consumer co-operative as well as examine its effect on the performance of consumer cooperatives. The study includes selected corporate governance mechanisms and concentrates only on consumer cooperatives established in Addis Ababa City. Therefore, the relationship between corporate governance mechanisms and performance has also been further explained.

1.2 Objective of the Study

The main objective of the study is to describe the governance practices and challenges of the consumer cooperative societies and examine whether the governance have a significant effect on the performance of consumer cooperatives in Addis Ababa City. More specifically, the study aims to

- describe the governance practices adopted by consumer cooperatives societies in Addis Ababa
- examine the challenges faced by the consumer cooperative Societies in practicing good corporate governance
- examine the relationship between board sizes, board gender diversity, meeting frequency of board members, directors' educational qualification and performance of consumer cooperatives societies.

2. LITERATURE REVIEW

2.1 The Concept of Cooperatives and Corporate Governance

Corporate governance is simply put by the famous report of Cadbury Committee as "the system by which companies are directed and controlled" (Cadbury, 1992:14). Therefore it can be clearly stated that corporate governance system is interlinked. It involves the entire relationships between an organization's management, its board, its shareholders and its other stakeholders, such as its employees and the community in which it is located. From the concept definitions, it can be easily understood that good corporate governance is an essential element to the growth and development of any organizations.

Aristotle, a Philosopher of Ancient Greece, recognized the social nature of man when he said, “Man is a Social Animal”. Man cannot lead a happy life in isolation. Therefore cooperation is essential for human being and can be considered as the basic principle for human life (Pradeesh, 2014). In Ethiopia the traditional cooperatives associations such as ***Iquib*** and ***Idir*** has existed since a century ago. *Iquib* is associations of people in which members are contributing the money for a common purpose and the collected money will be given back to a member on rotation basis. *Idir* is also an association of people in which members are contributing the money for providing assistance to a member in the event of death, accident, damages to property, among others (Emana, 2009). Cooperative form of business is clearly distinguished from investor owned enterprise through its member ownership and governance. They are enterprises jointly owned and managed for a common benefit of its members. They often emerge when important community needs are not being met. The priority for the cooperative is to improve the life of its members.

All kinds of business organizations including cooperatives have taken governance as a basic issue. However there is limited literature on co-operative governance and it has often taken ideas from corporate governance literatures (Cornforth, 2004). Birchall (2014) has confirmed that governance of co-operatives is different from other private business organization. Co-operative Housing Federation of Canada (2010) defined co-operative governance as how members of cooperatives and elected board of directors put direction for the cooperatives. The cooperative governance is a bit differ from the investors owned corporate governance because the board directors of cooperatives have dual responsibilities that they are not only monitor the upper management and oversee the strategic decision to maximize return of investment as the corporate business do, they go one additional step to look after the need of its members' to remain competitive in the market. In cooperatives the board of directors represents the need of its members. However As a cooperative grow, one of the most serious problem is the inability of the board of directors to maintain good connection to the cooperative members.

Cornforth (2004) stated that although there are abundant literatures on the corporate governance of business corporations, there is no sufficient literature regarding the governance of non-profit organizations, and in particular co-operatives and mutual association. The governance of cooperatives is under theorized. Among the theories of corporate governance such as agency theories, stewardship theories, resource-dependence theories, and stakeholder theories, agency theory is commonly used.

The development of agency theory is often traced back to Berle and Means(1932), although some writers suggest that one can go back to Adam Smith in 1776 and his influential book the Wealth of Nations (Wearing, 2005). Adam smith had to say about the directors of corporation "The directors of such companies, however, being the managers rather of other people's money than of their own, it cannot well be expected, that they should watch over it with the same anxious vigilance with which the partners in a private co-partner frequently watch over their own. Negligence and profusion, therefore, must always prevail, more or less, in the management of the affairs of such a company (Cannan, 1977). In general, this theory arises from the distinction between the owners (shareholders) of a company called "principal" and the executives hired to manage the organization called "the agent". This theory may help to sort out the various relationships within the firm. It is also possible to extend this theory to the cooperative societies. In cooperative societies, the members are the owners or the principal. The cooperative societies have the Board of Directors. The Board of Directors is also the highest management body and is responsible for monitoring the management decision and representing the co-operative. It is also expected to ensure the managers of the cooperatives are acting in the best interest of the member of the cooperatives. This study supports that good corporate governance is capable of mitigate the agency problem by monitoring the management of cooperatives through adopting various corporate governance mechanisms.

2.2 Performance of Consumer's Cooperatives

Parkash (2012) stated that consumer cooperative is an economic entity which is basically established by the consumers to protect their common interest. Management of consumer cooperative in India (1988) define Consumer cooperative as consumers' organization which is established by the consumers themselves to serve the interest of the consumers. Their main objective is to protect the consumers from traders and middlemen. The performance of consumer cooperatives can be measured in different ways. Performance is the way in which organizational goals and objectives are accomplished efficiently and effectively (Wanjau, 2007). Harrington (1991) also explained that the key indicators of cooperative performance are returns on investment, satisfaction of members and education and training of members and employees.

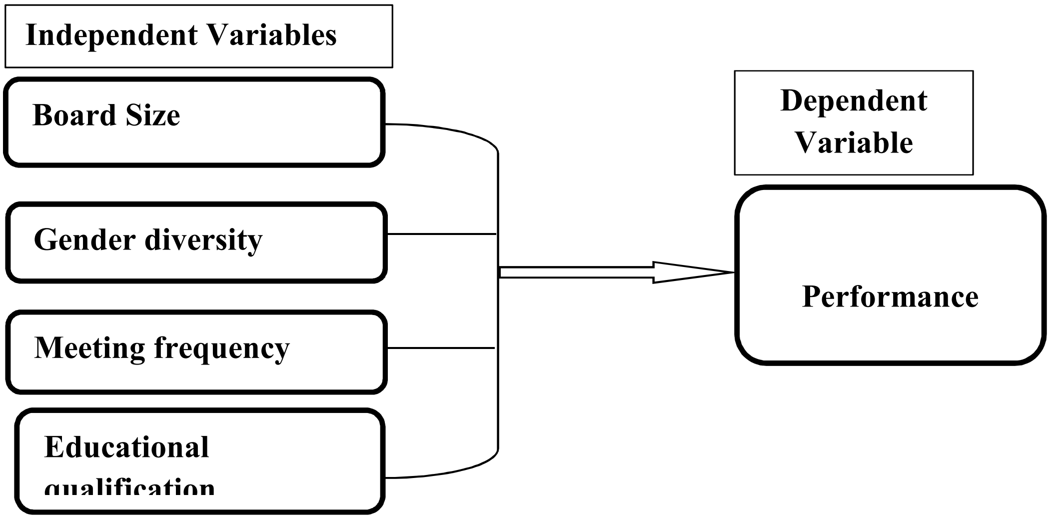
2.3 Empirical Literature

Prakash (2012) stated that consumer cooperative is an economic organization in which established by the consumers to protect their interests. The major causes for the weakness of the consumers' cooperatives are establishing the cooperatives without prior plan, lack of initiatives from the officials' side, poor management, and lack of serious follow up, malpractices, unfair competition and unhealthy procurement processes. The study has also suggested the following recommendation for the improvement of the consumers' cooperatives. Those who are responsible for the management of the cooperatives should understand the general principles of consumers' cooperatives and prepare prior detail plan to open consumer shop. They should also acquire adequate funds and design a supervision structure to follow up the members and employees of the cooperatives. Bathula (2008) studied the association between board characteristics and firm performance. The study has investigated 156 companies listed on New Zealand stock exchange. The period of the study covered from 2004-2007.The performance of the companies was measured by return on assets (ROA) and the control variables were firm age and firm size. The study confirmed that the board characteristics such as board size, chief executive officer duality and gender diversity were positively related with firm performance, whereas director ownership, board meetings and the number of board members with PhD level education was found to be negatively related.

2.4 Conceptual Framework and Research Hypothesis

To illustrate the conceptual framework in figure 1 a relationship exist between corporate governance and performance of a consumer cooperative. Corporate governance is measured using four variables that are considered independent in this study. These variables include board size, gender diversity, meeting frequency and educational qualification. The dependent variable is the performance of the consumer cooperative and subjective measurement is also used to measure the performance the cooperatives.

2.4.1 Conceptual Framework



Figurer 1: Conceptual framework

Source: Adapted from Talab *et al.*, (2017)

2.4.2 Hypothesis of the Study

- $H_{1:}$ Board member size is expected to have positive relationship with Performance of consumer cooperative societies.
- $H_{2:}$ Board member gender diversity is expected to have positive relationship with Performance of consumer cooperative societies.
- $H_{3:}$ Board member educational qualification is expected to have positive relationship with Performance of consumer cooperative societies.
- $H_{4:}$ Board member meeting frequency is expected to have positive relationship with Performance of consumer cooperative societies

3. RESEARCH METHODOLOGY

3.1 Research Design and Approach

Examining the corporate governance practice and performance of consumer cooperatives in Addis Ababa city is the primary objective of this study. To achieve this objective, survey and causal type of research design with a mixed research approach has been employed. The survey method has been used to gather data to be used for determining and describing the relation between the corporate governance and the performance of consumer cooperatives in Addis Ababa. Moreover, descriptive type of research has been employed. Quantitative data has been collected using structured questionnaire.

According to Addis Ababa City Administration Cooperative Agency, there are 141 basic consumer cooperative societies in the City and they have similar stages of development and exhibit high level of homogeneity in aspects such as structure and leadership. For this study it was found appropriate to use census. Census has been adopted since the total population was manageable for the researcher. The Board chairman/woman and managers of each basic consumer society has been approached to fill up the structured questioner. Profile of members of the board of directors has also been collected from secondary sources.

3.2 Data Collection and Analysis

The research used both primary and secondary data. Primary data has been collected through questionnaire. The board chairman and manager of each basic consumer society have also been approached to fill up the structured questioner. The respondents were chosen purposively because both the managers and board chairmen's were the right people to questions related to corporate governance. Secondary data was collected from, internal reports, minutes, proclamation and organization bylaws, and some other related books and internets.

The analysis process applied both qualitative and quantitative techniques of data presentation. It used statistical tools to analyze the data. This includes the percentages, frequencies, the mode and the mean scores. These have helped to determine the most prevalent corporate governance practices in consumer cooperatives and the challenges faced in practicing of good corporate governance. Linear regression has been used to quantify the strength of the relationship between the independent variables (Corporate governance practices) and the dependent variable (performance).The degree of influence has been tabulated in order to determine the relationship between the practices of corporate governance and the performance of consumer cooperatives.
The representation of the model is given in the equation below:

$$\mathbf{Y= B_0 + B_1X_1 + B_2X_2 + B_3X_3 + B_4X_4 + \mathcal{E}_t}$$

Where:
Y = Performance; B_0 is the constant, B_1-B_4 represent regression coefficients for the independent variables of X_1-X_2 (board size, board member's gender diversity, meeting frequency of board members, and board member's educational qualification); and $\mathcal{E}_t$ is the error term.

3.3 Description of Variables and Measurements

In this study four independent variables have been selected based on theories and previous empirical studies related to corporate governance and firm performance. These are board size, board gender diversity, meeting frequency and board members' educational qualifications. In accordance with the theory and empirical studies, the independent and dependent variables of the study have been identified in order to investigate the corporate governance mechanisms and the performance of consumer cooperatives in Addis Ababa.

1) **Dependent Variable (Performance):** This study has performance as the dependent variable. Performance is defined as an improved product quality, productivity or technical efficiency, service capabilities of a firm, which leads to sustainable profit (Read and miller, 1990: Clark, 2007; Harrington, 1991 cited in Masuku *et al.*, 2016). Stefanovska & Soklevski (2014) stated that in light of agency theory particularly in the industrial era financial ratio is used as the main measure of organizational performance. However, Masuku *et al.*, (2016) stated that the financial ratios, which mostly based upon efficiency measures (profit / financial resources), do not seem adequate to estimate cooperative performances. Rolstadas (1998) has defined performance as an intricate interrelationship between seven performance criteria: effectiveness, efficiency, and quality, and productivity, quality of work life, innovation, and profitability/budget-ability.

2) **Board Size:** Board size can be defined as the number of directors sitting on the board. The corporate governance literature gives inconsistent explanation regarding the board size when it linked with corporate performance. The number of directors on the board is an important variable, though literature does not have a consensus on the influence of board size toward increasing in firm's performance. The size of board of directors is varied between one country and another, for instance board in Europe (UK, Switzerland and Netherlands) tend to have a small board size (fewer than 10 board members), while other countries (e.g. Belgium, France, Spain, Italy and Germany) have a large board size i.e. between 13 to 19 members (Heidrick & Struggles, 2007 cited in Yusoff, 2010). In Australia, board size has an average of seven members

(Korn/Ferry International & Egan Associates, 2007 cited in Yusoff, 2010).

3) **Board Gender Diversity:** Gender diversity of the board is measured as the percentage of number of female directors divided by the total number of board members. Board gender diversity is helpful to increase company's performance since it provides new insights and perspectives (Bathula, 2008). Female board members will bring diverse viewpoints to the boardroom that is not possible with all male directors. Appiadjei *et al.* (2017) confirmed that when the number of women increased on the board of listed firms, the return of equity and net profit margin also increased. Lu and Bao (2018) also found that gender diversity had a significant and positive effect on firm performance. Moreover they stated that the effect exists only when there are more than two females in board, supporting the critical mass theory.

4) **Board Meeting Frequency:** Board Meeting Frequency refers the number of meeting how much time board meets on a year during the period under review. Akpan (2015) found that board meetings negatively and significantly relate with company performance. The study stated that while the frequency of meeting increases, the shareholders earnings decreases because a company compelled to incurred various financial expenses such as sitting allowance, travelling, hotel accommodation and entertainment expenses during meetings. Whereas, Ntim (2009) confirmed that frequent board meeting positively

influences the performance of the company since it helps to strengthen supervision and good management.

5) **Educational qualification of board members:** Educational qualification is important determinant of board effectiveness. According to Rose (2007) If the board members have a university degree/or equivalent skills, It is assumed that the board have adequate human capital to understand and analyze all the information presented by the company's management body. It is also believed that qualified and experienced board members can implement the strategy of the company effectively. Bathula (2008) stated that while the norms need qualified board members, the study do not show any positive link between higher education and firm performance. Rather it shows the need for firm relevant skill.

4. RESULTS AND DISCUSSION

4.1 Descriptive Statistics and Test Results

From the 141 questionnaires that were distributed, 129 were returned with a 91.5% response rate. Reliability of measurement instruments, which refers to the measurement attribute concerned with accuracy, precision and consistency (Cooper & Schindler, 2014), was checked using Cronbach's alpha test. A reliability value above 0.6 indicates that the measurement items are reliable while values above 0.9 are considered as highly reliable. Anything below 0.6 values are considered as inconsistent with the reliability scale as stated by George Mallery (2003). Thus, all explanatory variables and all individual questions are reliable and acceptable range of Cronbach's Alpha Coefficient. Based on the examination of the research scales and constructs, it can be concluded that each variable represents a reliable construct (Table 1).

Table 1: Reliability Analysis Result

Variables	Cronbach's Alpha	No of Items	Remark
Board size	0.764	5	Reliable
Gender diversity	0.700	4	Reliable
Meeting frequency	0.739	5	Reliable
Educational Qualification	0.747	4	Reliable

Source: Author's computation (2019)

Research validity refers to the correctness or truthfulness of an inference that is made from a research study (Cooper & Schindler, 2014).Validity is the most critical criterion and indicates the degree to which an instrument measures what it is supposed to measure. The questionnaire was carefully designed and tested with a few members of the population for further improvements. Content validity of the survey questionnaire was validated by professionals, and the research advisor. In order to avoid invalidity most of the questionnaire contents were taken from different secondary documents.

4.2 Challenges of Corporate Governance in Consumer's Cooperatives in Addis Ababa

Based on the first objective of this study which was to describe the governance practices adopted by consumer cooperatives societies in Addis Ababa city, in this regard the study found that most of the boards of directors have evaluated the performance of the cooperative extensively and they ensured the compliance of the cooperatives with the relevant laws and regulation. The members of the consumer cooperative participated in the major decision of the cooperative and the board reviewed the procedures of the cooperatives to ensure the effectiveness of the internal control system and they ensured that the accounting system was in line with accepted accounting principles and standards. Regarding the General Assembly, the study found that in most of the consumer cooperatives the general assembly met at least once in a year, and the general assembly elected, dismissed, the member of the board, audit committee and other subcommittee. Most of the consumer cooperatives general assembly approved the annual work plan, gave decisions on the audit report, and decided on the distribution of annual profit. In general, the consumer cooperatives under consideration are found, in most cases adhering the cooperative society proclamation 958/2016 and the cooperative bylaw. The board in its role adequately addressed the governance practice of the consumer cooperative societies.

On the second objective of determining the challenges of implementing corporate governance practices, among the key challenges that this study established while the cooperatives undertaking corporate governance practices they were lacking commitment and leadership, They faced limited supplies of goods and services and challenged by the incompetence of audit committee. The researcher found out that, cases of corruption and mismanagement of funds in the cooperatives were few, the board didn't allow the transaction that benefits few at the expense of members and the cooperatives didn't receive so much political pressure from external forces to implement the activities.

4.3 Mean and Standard Deviation of Variables

Table 2 shows a summary of the descriptive statistics of the dependent and independent variables for 141 consumer cooperatives for a period of five years from 2013/14-2017/18. The table includes the mean, the median, standard deviation, minimum and maximum for the dependent and independent variables. This data was generated to give the overall description about data used in the model.

Table 2: Summary of the Descriptive Statistics

Variables	N	Mean	Std. Deviation
Board size	129	7.0595	1.52734
Female board members	129	1.6638	1.27781
Board members above degree	129	1.8775	2.17878
Frequency meeting/year	122	31.4530	18.97574

Source: Author's survey result (2019)

Concerning explanatory variables, there are some important statistics that have to be mentioned. Board size of the consumer cooperatives which is measured as number of directors sit on board. The table above shows that the average board size for the cooperatives is about 7 members (mean=7.01) with a maximum of 15 and a minimum of 5 members. The standard deviation indicates that for the board size varies by 1.53 or 2 directors from the average value of 7 directors. Female participation in the board of director, on average 2 (1.67) members are females with a minimum 0 and maximum 7 (6.8) during the last five years. Zero indicates cooperatives that don't have any representation for women on their board. The standard deviation is 1.3. The result suggests that there are small numbers and high dispersion of women in the board during the study period. As per the Ethiopian Cooperative societies proclamation no. 985/2016 article 34/7 stated that 30% of any cooperative society board of director shall be held by female members and on article 12/7 instruct the cooperative societies to include requirements to encourage the participation of female members in the board of director or management committee of the society.

The educational level of director measured as the number of directors who had university degree or higher. The mean value 1.87 indicates on average directors who have university degree or above was 2 people during the study period. The maximum and the minimum value of the statistic is 11 and 0 respectively. Zero indicates the directors that don't have university degree or above academic qualification. The standard deviation for the educational level varies by 2.17 or 2 directors from the average value of 2 directors. Furthermore, another interesting observation is that there was some what a higher variation in frequency of board of directors' meeting during the study period which is measured as number of directors meeting in a year, on average is 31.45. The maximum value is 128 time and the minimum value is 1 time with the standard deviation 18.9. The result indicates that there is a consumer's cooperative board of directors which conduct high frequent meeting in a year at a maximum of 128 times in a year and there is also a board of directors which conducts meeting only one time during a year. The result further stipulates as there is high variation in conducting a meeting among board of directors during the study period by 18.9 or 19 times.

4.4 Correlation Analysis of the Study Variables

The primary objective of correlation analysis is to measure the strength or degree of linear association between two variables. The correlation coefficient examines the strength and direction of the linear relationship between two variables (Christensen *et al.*, 2014). The correlation coefficient can range between -1 and +1, the larger the absolute value of the coefficient; the stronger the relationship between the variables. Zero (0) indicates no relationship between two variables. The sign of the relationship indicates the direction of relationship. P-value $\leq \alpha$: The correlation is statistically significant; if the p-value is less than or equal to the significance level, then we can conclude that the correlation is different from 0. P-value $> \alpha$: The correlation is not statistically significant; if the p-value is greater than the significance level, then you cannot conclude that the correlation is different from 0 (Cooper & Schindler, 2014). As such the following table shows the correlation between operational performance and corporate governance mechanisms.

Table 3: Pearson's Correlations Analyses Result

	Board Size	Gender Diversity	Education Qualification	Meeting Frequency	Performance
Board Size	1				
	129				
Gender Diversity	-.079	1			
	.372				
	129	129			
Education Qualification	.460***	.009	1		
	.000	.922			
	129	129	129		
Meeting Frequency	-.019	.071	-.032	1	
	.833	.426	.716		
	129	129	129	129	
Performance	.628***	.211**	.716***	.202**	1
	.000	.016	.000	.022	
	129	129	129	129	129

***Correlation is significant at $p<0.01$;**. Correlation is significant at $p<0.05$

Source: Author's analysis result (2019)

The analysis result revealed that most of the independent variables correlated with the performance of cooperatives. Among the variables the highest and strong correlation coefficient was found between educational qualification and performance (r=0.716) and between board size and performance (r=0.628). Weak, but significant correlation was found between gender diversity and performance (r=0.211) and between meeting frequency and performance(r=0.202). Therefore, from the above table we can conclude that all constructed variables have positive correlation with performance because the p (sig) value is less than α=.05 level. Therefore, the constructed independent corporate governance variables correlation with consumer cooperative performance is significant.

4.5 Results of Regression Analysis

Before applying regression analysis, some tests were conducted in order to ensure the appropriateness of data to assumptions regression analysis as follows. Linearity refers to the degree to which the change in the dependent variable is related to the change in the independent variables. It can be tested by through residual plots which are usually drawn by the statistical analysis software. It may be also violated by outliers and a curve shows that a linear model may not be the best fit and thus a complex model may be necessary (Saunders *et al.*, 2012). To determine whether the relationship between the dependent variable performance and the independent variables board size, educational qualification, meeting frequency and gender diversity, is linear; plots of the regression residuals through SPSS V20 software had been used.

Figure 2: Linearity test

Source: Author’s survey result (2019)

From the above figure the scatter plot of residuals shows no large difference in the spread of the residuals as we can observe from left to right. This result suggests that the relationship is linear. Therefore, there is no problem of linearity. The linear regression analysis requires that all variables to be multivariate normal. This assumption can best be checked with a histogram and a fitted normal curve or a Q-Q-Plot (Garson, 2012). As per the Classical Linear Regression Models assumptions, the error term should be normally distributed or expected value of the errors terms should be zero ($E(u_t)= 0$) (Kapetanious, 2014) .

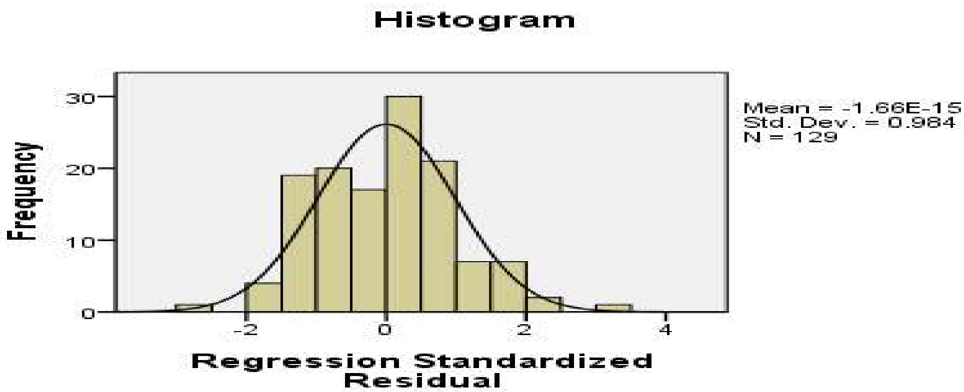


Figure 3: Normality test

Source: Author’s survey result (2019)

The above normality test figure shows that the frequency distribution of the standardized residuals compared to a normal distribution. As you can see from the graph, although there are some residuals (e.g., those occurring around 0) that are relatively far away from the curve, many of the residuals are fairly close to 0. Moreover, the histogram is bell shaped which leads to infer that the residual (disturbance or errors) are normally distributed. Thus, no violations of the assumption normally distributed error term.

Linear regression assumes that there is little or no multi-co linearity in the data. Multicollinarity is an unacceptable high level of inter correlation among the independent variables, (Garson, 2012). When the explanatory variables are very highly correlated with each other and this problem is known as "multicollinearity". A second important independence assumption is that the error of the mean has to be independent from the independent variables (Kapetanious, 2014). Thus, we can test using the following criteria.

1. **Correlation matrix**: when computing the matrix of Pearson's Bivariate Correlation among all independent variables the correlation coefficients need to be smaller than 0.8 (Gregory, 2018). Thus from this research finding correlation table 3.3 indicates that all independent variables have correlation coefficient less than 0.8.

2. Tolerance: the tolerance measures the influence of one independent variable on all other independent variables; the tolerance is calculated with an initial linear regression analysis. Tolerance is defined as $T = 1 – R^2$ for these first step regression analysis. Thus from the finding in coefficient table all tolerance values were less than one (Gregory, 2018) (See table 4).

3. Variance Inflation Factor (VIF): the variance inflation factor of the linear regression is defined as VIF = 1/T. Similarly, with VIF > 10 there is an indication for multicollinearity to be present; with VIF > 100 there is certainly multicollinearity in the sample (Gregory, 2018). Thus from the coefficient table all VIF values are less than 10. Simply the values are not more than 1.280(see table 3.5). This confirms us there are no violations of little or no multicollinarity between independent variables.

Linear regression analysis requires that there is little or no autocorrelation in the data. Autocorrelation occurs when the residuals are not independent from each other. While a scatter plot allows you to check for autocorrelations, you can test the linear regression model for autocorrelation with the Durbin-Watson test. The value of Durbin Watson assumes to be between 0 and 4; values around 2 indicate no autocorrelation (Gregory, 2018). From our test, the value of Durbin Watson is about 1.731. Thus it lies between 0<1.731<4 (see table 4 below). The value of Durbin Watson is close to 2 indicates there is no violation of Autocorrelation.

Table 4: Autocorrelation test

Change Statistics					
R Square Change	F Change	df1	df2	Sig. F Change	Durbin-Watson
0.73	82.551	4	124	.000	1.731

Source: Author’s survey result (2019)

Homoscedasticity Test: Homoscedasticity test, which refers to whether residuals are equally distributed, or presence of equality of variance/homogeneity of variance and it assumes that the variance of the error is constant (Brooks, 2014). The following test was done in testing the problem of homoscedasticity.

According to Glejser Test of Homoscedasticity if the significance. value greater than 0.05 there is no problem of homoscedasticity and if the sig. value is less than 0.05, then there is problem of homoscedasticity (Holida *et al.*, 2019) Thus, from the above table 5 all corporate governance independent variables sig. Value based on Glejser test was greater than 5% significant level i.e. p>0.05. Therefore, from the test result there is no violation of homoscedasticity. Thus, from an explanation presented above the entire five tests have no significant data problems that would lead to the assumptions of multiple regressions have been seriously violated (Table 5).

Table 5: Glejser's Analysis Result for Homoscedasticity Test

Variables	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	.374	.110		3.413	.001		
Board Size	.005	.030	.017	.171	.865	.781	1.280
Gender Diversity	-.006	.023	-.025	-.284	.777	.986	1.014
Educational Qualification	-.028	.023	-.124	-1.235	.219	.785	1.274
Meeting frequency	-.008	.023	-.031	-.348	.728	.994	1.006

Source: Author's survey result (2019)

Multiple regressions were used for testing the model and hypotheses. It provides information regarding the significance of the variables that were included in the model while the R^2 explains how much variance in the dependent variable is explained by the model (Kapetanious, 2014). It means how much the performance is explained by the constructed corporate governance variables. Statements of hypothesis were formulated based on the four variables used in this study in order to come up with the results. The adjusted R^2 value was found to be 0.727 meaning 73% of the variance in the performance of consumer's cooperatives was predicted by the independent variables included in the model. Alternatively speaking, 27% changes in consumer's cooperative performance in Addis Ababa is caused by variables that are not included in the model. Moreover, the ANOVA result (F=82.55) showed that the corporate governance variables (such as board size, meeting frequency, gender diversity and educational qualification) are good explanatory variables of the consumer cooperative performance that jointly and significantly ($p<0.01$) explained variability in the performance of consumer's cooperatives (Table 6).

Table 6: Estimation Results of Multiple Linear Regression

Variables	Unstandardized Coefficients		Standardized Coefficients	t
	B	Std. Error	Beta	
Constant	-.239	.184		-1.30
Board size	.382	.050	.403	7.56***
Gender diversity	.181	.038	.223	4.73***
Educational qualification	.384	.038	.536	10.12***
Meeting frequency	.174	.039	.211	4.49***
Adjusted R^2= 0.73	F=82.55***			

***Significant at $p<0.01$

Source: Author's survey result (2019)

In table 6, coefficients indicated how much the dependent variable varies with an independent variable, when all other independent variables are held constant. The Beta coefficients indicated that how and to what extent the independent variables influence the dependent variable (Kapetanious, 2014). Accordingly, the result of coefficient value of regression analysis indicated the highest influencing corporate governance variables which influence their cooperative performance was educational qualification (at Beta value=0.536), followed by board size (Beta=0.403), and gender diversity (Beta=0.223). Thus, from the finding all corporate governance variables have positive and statistically significant influence on consumer cooperative performance because the p (sig) value in correlation table is less than α=.05 level. Therefore all corporate governance practices were statistically significant. Among the variables one can infer that educational qualification and board size have the most statistically significant and are more influencing consumer cooperative Performance in Addis Ababa. Based on the above table 3.8 finding we can develop the following Regression equation:

$$\text{Performance}=0.382X_1+0.181X_2+0.384X_3+0.174X_4$$

Where, X_1= Board Size

X_2= Gender Diversity

X_3= Educational Qualification

X_4= Meeting Frequency

Based on the above model result, all the explanatory variables have significant and positive influence on consumer cooperative performance. The unstandardized B coefficient of board size =0.382 .i.e. 100% change in board size leads to 38.2% change in consumer cooperative performance, gender diversity=0.181 indicating that 100% change in gender diversity leads to 18.1% increase in consumer cooperative performance, educational qualification =0.384 implies that a one unit change in educational qualification leads to 0.384 unit increase in consumer cooperative performance, and meeting frequency= 0.174 signifies that a one unit change in meeting frequency results to 0.174 unit increase in consumer cooperative performance.

4.6 Summary of Hypothesis Testing Result

H_1: Board member size is expected to have positive relationship with consumer cooperative performance

Based on standardized coefficient Beta value and P-value in regression table 3.8, the result shows that board size has a Beta coefficient of 0.403 and $p< 0.01$. Holding other explanatory variables constant board size was found to have a statistically significant positive relationship with consumer cooperative performance. In other words, the small number of board members of consumer cooperatives, the lower their performance achievement is and vice versa. The result indicates that large boards are more effective in monitoring and controlling cooperative management. Therefore, the researcher accepted the alternative hypothesis (H_1).

H2: Board member gender diversity is expected to have positive relationship with consumer cooperative performance

Based on standardized coefficient Beta value and P-value in regression table 3.8 the result shows that board member gender diversity has a Beta coefficient of 0.223 and $p<0.01$. Holding other explanatory variables constant board member gender diversity was found to have a statistically significant positive relationship with consumer cooperative performance. The descriptive analysis shows that in the board of director women were small in number and the low number of women on the boards of the cooperatives does not necessarily contradict the notion that women's presence on boards is important in general. Therefore, the H_2 is accepted.

H3: Board member educational qualification is expected to have positive relationship with consumer cooperative performance

Based on standardized coefficient Beta value and P-value in regression table 3.8, the result shows that educational qualification has a Beta coefficient of 0.536 and $p < 0.01$. Holding other explanatory variables constant educational qualification was found to have a statistically significant positive relationship with consumer cooperative performance. In other words the higher the number of directors who had higher academic qualification sitting on the board the higher the performance of consumer cooperatives and vice versa. This suggests that the presence of qualified directors on the board plays an important role in performing the boards monitoring responsibility and in improving the cooperative performance. The alternative hypothesis for board educational qualification predicts that there is a significant positive relation between board members educational qualification and consumer cooperative performance. Thus, the result is in line with the proposed alternate hypothesis. Thus, there is a significant positive relationship between board members educational qualification and performance of consumer cooperative in Addis Ababa. Therefore, H_3 is accepted.

H4: Board member meeting frequency is expected to have positive relationship with consumer cooperative performance

Based on standardized coefficient Beta value and P-value in regression table 3.8, the result shows that Board member meeting frequency has a Beta coefficient of 0.211 and $p < 0.01$. Holding other explanatory variables constant board member meeting frequency was found to have a statistically significant positive relationship with consumer cooperative performance. Therefore, the researcher accepted H_4.

5. SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary of Finding

From the findings the researcher found that majority of the consumer cooperatives (72%) were established in Addis Ababa in the year 2008-2012. Until this research data collected, a total of 141 consumer cooperatives are working in Addis Ababa city within 10 sub cities. A total of 414, 821 members are registered in these cooperatives. Among 414, 821 members 67.4 % are female and the remained 32.6 % are male. The majority of the consumer cooperatives have no training program for board of directors. The cooperative proclamation 958/2016 stated that cooperative societies shall provide education and training for their members, elected board of directors, management and employees for the development of the societies but the practice has ignored this direction. It was also found that the cooperatives have no formal guideline how the training is offered to the members and board of directors. This has a drawback for the performance of the cooperative. Most of the consumer cooperatives don't have qualified directors and they lack the skill needed to execute their mandate.

Based on the first objective of this study, the study found that most of the boards of directors have evaluated the performance of the cooperative extensively and they ensured the compliance of the cooperatives with the relevant laws and regulation. The members of the consumer cooperative participated in major decision of the cooperative and the board has reviewed the procedures of the cooperatives to ensure the effectiveness of the internal control system and they ensured that the accounting system was in line with accepted accounting principles and standard.

Regarding the General Assembly, the study found that in most of the consumer cooperatives the general assembly met at least once in a year, and the general assembly elected, dismissed, the member of the board, audit committee and other subcommittee. Most of the consumer cooperatives general assembly approved the annual work plan, gave decision on audit report, and decided on the distribution of annual profit. In general, the consumer cooperatives under consideration are found, in most cases adhering the cooperative society proclamation 958/2016 and the cooperative bylaw.

The board in its role adequately addressed the governance practice of the consumer cooperative societies. Among the key challenges that this study established while the cooperatives undertaking corporate governance practices they were lacking commitment and leadership, they faced limited supplies of goods and services and challenged by the incompetence of audit committee. The researcher found out that, cases of corruption and mismanagement of funds in the cooperatives were few, the board didn't allow the transaction that benefits few at the expense of members and the cooperatives didn't receive so much political pressure from external forces to implement the activities.

The last objective of the study was to examining the relationship between corporate governance practices and performance of consumer cooperatives in Addis Ababa city. The study concentrated on the following key corporate governance practices: board sizes, board gender diversity, meeting frequency of board members, and directors' educational qualification. The Pearson correlation and regression analysis were used to find out whether there is a relationship between the variables to be measured (i.e. corporate governance and performance of consumer cooperatives) and also to find out if the relationship is significant or not. In summary the study found that all the corporate governance variables affected the performance positively and significantly. As per the result of table 4.22 among the variables educational qualification and board size have high impact on the performance of the consumer cooperatives with beta value 0.536 and 0.403 respectively and gender diversity and meeting frequency have moderate effect on the performance of consumer cooperatives with beta value 0.223 and 0.211 respectively.

With regard to educational qualification of board members, the majority of respondents agree that educational qualification of directors have a significant effect on the monitoring and controlling activities the directors. However the analysis revels that consumer cooperatives don't have qualified directors and therefore the cooperatives lack the knowledge and skills needed so as to execute their mandate.

When considering the board size the majority of respondents disagreed with the idea of small board size. It means they supported the large board size to enhance the performance and share the expertise and experience. This idea is supported by various scholars and from the resource dependency theory perspective also large board size is very important to provide the resources to the cooperatives (Hill man et al 2000 cited by Yusoff, 2010). This connection is grounded in the view that board size is related with the organization's ability to access critical resources (Hill man et al 2000 cited by Yusoff). On the other hand Fema & Jensen (1989) cited by Yusoff, (2010) confirmed that from the agency theory perspective view, large board size provides effective monitoring by reducing the domination of the organization manager.

Regarding the gender diversity, the consumer cooperative has a clear regulation and requirement that encourage the participation of female member in the board. The analysis in table 3.2 indicated that there is small number of female in the board member of the cooperatives and it is evident that the cooperatives have a male dominated board. The Addis Ababa cooperative agency report showed that from the total member of consumer cooperatives 67.4 % are female whereas the male are 32.6%. This shows that the participation of females in the board is less. The presence of female board of director has a positive contribution for the performance of the cooperative. Byrnes (1999) cited by Nakusi (2014) stated that the participation of women in the board can help to avoid too risky projects as women are generally risk-averse than men.

With regard to board of directors meeting frequency, the finding in table 3.2 show that on average 32 meeting held in a year. The result of the descriptive statistics indicates that there is a consumer's cooperative board of directors which conduct high frequent meeting in a year at a maximum of 128 times in a year and there is also a board of directors which conducts meeting only one time during a year. From the analysis we found that the frequency of meeting is the least factor to influence the performance of the consumers' cooperatives. This could be due to the relevance of the meeting agenda and the nature of the meeting in relation to performance which the boards of directors were doing.

5.2 Conclusion

This study considered that the practice of corporate governance and performance of consumer cooperatives in Addis Ababa city. Cooperative governance is essential in the activities of the consumer cooperatives. The principles of corporate governance were adequately addressed in the governance practice of consumer cooperatives. With respect to challenges of consumer cooperatives in the implementation of corporate governance, the study concludes that the consumer cooperatives board of directors lacked commitment and leadership; the cooperatives were suffered with the supplies of goods and services and audit committees of the consumer cooperatives were incompetent to execute their duties. The consumer cooperatives don't have highly qualified directors and therefore the cooperatives lack the knowledge and skills needed so as to execute their mandate. The study established that the majority of the board had seven members and it is small to generate good performance. Even though, the cooperative proclamation encourages the participation of female member in the board, the study concludes that there is small number of female in the board member of the cooperatives. From the analysis we conclude that the frequency of meeting is the least factor that influences the performance of the consumers' cooperatives. However the outcome implies frequent meeting of board of directors is beneficial to the cooperatives performance.

5.3 Recommendations

From the above findings and conclusion the following recommendations are suggested.

- The researcher recommends that the cooperatives should develop a separate and detail cooperative governance code to ensure the smooth running of the cooperative societies and the corporate governance practices should be implemented in all consumer cooperatives societies.
- Regarding limited supplies of goods and services, the government associated with Addis Ababa Cooperative Agency should support the consumer cooperatives to distribute quality goods and services to the communities. The Addis Ababa cooperative agency should also establish

a special task force to monitor and follow up the distribution of quality goods to the communities.

- The cooperative board of directors and members should be trained to improve the performance of the cooperatives. This is because qualified directors have good governance and leadership skills. Members also should be trained since trained members obviously understand the cooperative goals, understand their rights and participate fully in the cooperatives activities. The board of directors should constantly organize capacity building trainings for audit committee members.
- The female participation in the board of director was less. Therefore the Addis Ababa cooperative agency should design a policy to strengthen the female participation in the board.
- The common board size of consumer cooperatives is seven members. The study found that large board size is associated with better performance. Hence, the Addis Ababa cooperative agency should design a policy to increase the number of qualified independent directors.
- In order to increase the commitment of the board of directors, the cooperatives should provide better incentive to the members of board of directors. If the board of directors is given better incentives, they will tend to be committed to their Job of supervising the manager of the consumer cooperatives. If the manager also understands that the boards of directors are committed to supervise him/her, then he/ she will work hard to increase the performance the cooperative.

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