



**Addis Ababa University**  
**College of Business and Economics**  
**Department of Public Administration and**  
**Development Management**

**Factors Affecting Managerial Effectiveness of**  
**Cooperatives as Local Development Actors:**  
**The Case of BechoWeliso Farmers' Cooperative Union**

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A thesis submitted to Department of Public Administration and  
Development Management of Addis Ababa University

In partial Fulfillment of the Requirements for the Degree of Master  
in Public Management and Policy (MPMP)

June 2015

Addis Ababa, Ethiopia

**Addis Ababa University**  
**College of Business and Economics**  
**Department of Public Management and Policy**

This is certify that the thesis prepared by TeshomeArgeta, entitled Factors Affecting Managerial Effectiveness of Cooperatives as Local Development actors: The case of BechoWelsio Farmers' Cooperative Union, which is submitted in partial fulfillment of the requirements for the Degree of Masters in Public Management and Policy (MPMP), complies with the regulation of the university and meets the accepted standards with respect to originality and quality.

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## DECLARATION

I, the undersigned, hereby declare that this thesis is my original work and has not been presented for a degree in any university and all the sources of materials used for the thesis are duly acknowledged

Name of candidate; TeshomeArgeta

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## CONFIRMATION

This thesis can be submitted for examination with my approval as university advisor.

Advisor; MulugetaDebebe (PhD)

Signature \_\_\_\_\_

Date \_\_\_\_\_

## **Dedication**

This thesis is dedicated to my parents who had paid all possible scarifications to enable me successfully complete my school and university studies up to my first degree that made me eligible for this Master of Public Management and Policy (MPMP) study.

# Abstract

Recent studies have underlined the importance of effective management for effective organizational performance. Cooperatives being unique forms of enterprises are working to meet two conflicting goals, viz. efficiency and associational (democracy) goals. The focus of this paper is therefore to descriptively investigate factors affecting managerial effectiveness of the coop union understudy with the aim of suggesting possible solutions for the improvement of problems identified and also draw lessons as best practice for others.

The case study was conducted based on the 29 samples taken from within the case population of the cooperative union, i.e. GA members, BOD members, and employees of the coop unions based on two stage sampling procedure. The sample also included 5 individuals from employees of organizing and regulating organ (Oromia Cooperative Promotion Agency/OCPA).

The findings from the analysis made on data obtained from sampled sources have shown that significant gaps/problems the coop union has been facing in its journey towards meeting stated mission. These come under two major categories, viz. the contribution that the coop union makes to the local development of the wereda and the various problems that constrain its capacity in playing more significant role in governance (local development endeavor).

The findings of this study revealed that the coop union has been making significant contribution in the local development endeavor in both economic and social aspects. However, there have also been various problems limiting the coop union from fully playing its role in the local development of the wereda. These include leadership related gaps and other problems emanating thereof (such as lack of competence and commitment leaders, incomprehensiveness of the byelaw of the coop union, lack of established communication system, lack of well-developed system/standards of accountability, lack of established organizational culture and shared view on the coop values, principles and laws, missing link in the organizational structure of the coop union, direction of growth of the coop union's business); managers related gaps; weak members participation; government role related gaps (weak enforcement of rules and regulations, lack of knowledge center specifically designed for cooperatives, outdated provisions of cooperative laws) and the negative effect of competition.

The findings of this study can therefore be signal to the leaders and managers of the coop union understudy, the OCPA (organizing and regulatory body) other relevant stakeholders to get alert of the problems and take the recommendations given into account as possible solution. Explanation/description and interpretation based the data summarized and presented with the help of descriptive statistics like tables and percentages.

## **Biographic Sketch**

The author was born 1968 from his father ArgetaEjeta and his mother YadateBadase in Toke Kutaye district/woreda, MelkaDagaPeasnat Administration. He attended his elementary and junior secondary school at Guder town, DejazmachBeshaAboye Elementary and Junior Secondary school. He completed his high school studies at Ambo town, the then MeskeremHullet, Ambo Comprehensive Secondary High School. He then joined Haramaya University (then called Alemaya University of Agriculture) in 1997/98 and graduated with BSc. Degree in Agricultural Economics.

Then after, he was employed in the then Ministry of Agriculture, Wellega Administrative Zone (nowcalled East Wellega Zone) and served there for about two years, first as expert and later as team leader of cooperative promotion at Wereda level. He was then transferred to West Showa Zone in the capacity of zonal cooperative promotion and marketing expert. Out the four years and nine months service (i.e. April 1994-Juanry 1999) in West Shewa Zone, he served for about three years as expert and for one year and 7 months as team leader of cooperative promotion and marketing under Cooperative Promotion Department of the Zone.

Starting from mid of January 1999 up to August 2002, he served in Regional Cooperative promotion Bureau of Oromia at different posts in different capacities, viz., planning and evaluation expert, and research expert and later as team leader of research team.

In 2000, he attended three months training on cooperative business management in Cooperative College of Kenya. While serving at bureau level, he again studied his Postgraduate Diploma in Cooperative Business Management for nine months (July 2002-March 2003) at VaikunthMehetha, National Institute of Cooperative Business Management (VAMINCOM), Pune, India.

He then served at Federal cooperative Promotion Commission for about two years as capacity building senior expert.

Starting from December 2007, he has been serving in cooperative Bank of Oromia at different posts ranging from technical to managerial. He joined this postgraduate study program in March 2013.He is married in 1998 and has three children, one son and two daughters.

## **Acknowledgement**

First of all, I would like to extend my heartfelt thanks to all mighty GOD, who has given me the strength, power and patience to pass through all challenges successfully and reach the sweet fruits of my effort.

I am highly pleased to express my deepest gratitude to my advisor Dr. MulugetaDebebe, who invaluable contributed to the successful completion of my thesis work right from the very inception to the preparation of the final research report.

I would like to take this opportunity to sincerely acknowledge CBE for launching extension program for postgraduate study in MPMP which created favorable condition for me to join the program. I also owe my thanks to all instructors of DPADM who laid seeds of enthusiasm and passion in my pursuit of knowledge during this study.

I owe my heartfelt thanks to my officemate, Mr. TadleleTilahun, who had provided me invaluable support in availing different reference materials during my study.

I am extremely indebted to the following persons, viz. TamiratFule, TadesseKenenea, AbebeNegeri, Teshome Bekele and Tefera Anbesa for they invaluable contributed to the successful completion of my thesis work.

I would also like to extend my thanks and appreciation to managers of Becho-Weliso Farmers' Coop Union's leaders, managerial and non-managerial staff for their kind treatment and unreserved cooperation in providing me with all relevant data available under their domain. I am exceptionally very much grateful to Mr. DejeneHirpa, manager of the Becho-Weliso Farmers' Cooperative Union for his unreserved and invaluable support during data collection.

I am very much pleased to express my appreciation and thanks to my wife, ZeriyeDagne without the persistent support, caring and love of whom I couldn't have imagined my current position with respect to this postdate study. I fall short of words to express her dedicated support all the way during my study being a great source of encouragement and by availing everything that paves the way for my study.



Finally, my thanks go to my colleagues and officemates at Cooperative Bank of Oromia who provided me with warming, inspiring advice and encouraged ideas during my study and thesis work.

## **Abbreviations& Acronyms**

Anon:	Anonymous
BOD:	Board of directors
CBE:	College of Business and Economics
CEO:	Chief Executive Officer
Coop.:	Cooperative
CSA:	Central Statistical Authority
DPADM:	Department of public administration and development management
Dti:	Department of trade and industry
DV:	Dependent Variable
EMC:	Executive management committee
EIFS:	Ethiopian Institution Financial studies
EU:	European Union
EPS:	Earnings per share
FCA:	Federal Cooperative Agency of the Federal democratic Republic of Ethiopia
FDRE:	Federal Democratic Republic of Ethiopia
FGD:	Focus group discussion
GA:	General Assembly
ICA:	International Cooperative Alliance
IDV:	Independent variable
IOF:	Investor Owned Firms
ILO:	International Labor Organization
MBO:	Management by objective/Member based organizations
MC:	Managerial Competence
ME:	Managerial Effectiveness
MOA:	Ministry of Agriculture of Federal Democratic Republic of Ethiopia
MPADM:	Master of public administration and development management

n.d.:	No date
NRC:	Natural resource conservation
OCDC:	Overseas Cooperative Development Council
OECD:	Organization for Economic Cooperation and Development
OCPA:	Oromia Cooperative Promotion Agency
ROC:	Return on capital
ROSCA:	Rotating saving and credit association
SNNPR:	Southern Nations, Nationalities and People's Region
USAID:	United States Agency for International Development
UN:	United Nations
<i>UNEP:</i>	<i>United Nations Environment Programme</i>
<i>UNIDO:</i>	<i>United Nations Industrial Development Organization</i>

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# Chapter I

## Introduction

### 1.1. Background

Human cooperation as a form of group effort is an age old practice. Notwithstanding the fact that human species shares altruism (kin & reciprocal) driven form of cooperation with nonhuman species, Bowels & Gintis (2003:2) and Tomasello et al. (2012:673) indicated that human cooperation is unique as it is the result of unique capacities of human species. This uniqueness is reflected in cognitive, linguistic (communication) and psychological capacities that allow the formulation, internalization and adherence to general norms or social conducts, all driving from mutualistic collaboration.

Human history is full of evidences of cooperation (collective actions) that gave them strength and power in every walks of life including hunting, worshipping, providing shelter, security, and doing business together in groups. ILO (2014:1) supported this idea saying that the traditional system of cooperation based on mutuality, reciprocity and solidarity exists in all African societies, e.g. the rotating saving and credit associations (ROSCAs).

Kunhu (2011:5) stated that the practice of the principles of cooperation contributed to the development of human race than any other biological and social factors. Curl (2010:14) added that without simple economic group cooperation and mutual aid, human society would never have developed.

Human cooperation has been evolving in response to the changing environmental conditions (i.e. socio-economic, political, cultural, technological and other conditions). The evolution of human cooperation has passed through three general forms, viz. emotional cooperation, habitual cooperation and contractual cooperation.

In our country too, cooperation is an age-old tradition and the spirit of self-help has remained an integral part of communities for centuries. There are various *raison d'être* for human cooperation



in Ethiopia. People cooperate to help one another during sickness, injury or any other sudden problem out of instinctive emotional motives. There is also customary practice of cooperating among people to address certain socio-economic problems in the form of Idir, Ikub, Debo, Wonfel and the likes.

Cooperative as a modern form of cooperation evolved from the earlier two forms and emerged during the early 19<sup>th</sup> century to tackle the evil effects of industrial revolution that severely affected the lives of the working class who were deprived off the ownership of any means of production other than their labor. No other option other than being organized into cooperative could enable the marginalized working class to overcome the problem of powerlessness in an effort to meet survival needs and improve their life conditions. The first successful cooperative was thus, the consumers' cooperative established in England, Rochdale town in 1844 by 28 Rochdale Pioneers. They developed the first cooperative principles called the Rochdale Cooperative Principles to lay the ground for its management and operation. These cooperative principles were in frequent revision since then by collaborative work of concerned institutions and individuals like ICA, ILO, professionals in the field to ensure its independence, maintain its unique features and achieve multiple objectives expected of it in the challenging socio-economic context of the time. The cooperative movement, as remarked by Curl (2010:12) is therefore one of the first social movements of modern times for *justice* and *fairness*.

The history of modern cooperative in Ethiopia takes us back about six decades. Cooperative movement in Ethiopia was first initiated in 1944 not by the felt needs of members of self-help groups but by peace-corps and later by some enlightened individuals like GermameNeway (in the late 1950s) who had exposure of cooperative movement in western countries. The intention was to solve the problem of agriculture and land tenure system. Accordingly the first farm cooperative was established in Wolayita district by GermameNeway in 1958. The initiative was later supported by the then government to use cooperatives as an instrument for implementing its development extension policies (MOA, 2002).

According to UN (2012) estimate, cooperatives have over 1 billion members worldwide (14% of the world population) and secure the livelihoods of nearly half population of the world. Moreover, Schwettmann (n.d:1) indicated that over 40% of all households in Africa is members of cooperatives. Estimates by Roelants, Hyunsik&Terrasi (2014:9) also indicated that

cooperatives create about 250 million employment(3.6% of the world population. In Ethiopia, there are more than 56,045 cooperatives having a total membership of about 9.2 million and members' household of more than 46 million (i.e. 10% and 40 % of the total population of the country respectively) have been organized in cooperatives. This shows that every four out of ten Ethiopians have been benefiting from the services of cooperatives. The sector has created job opportunity for over 0.81 million (FCA 2014).

Bezabih (2009) pointed out that though the current government of Ethiopia has recognized the importance of cooperatives for social and economic development in its successive development programs and plans, it is apparent that the cooperative sector has not yet developed the managerial capacity that keeps it viable in the face the new problems, challenges and opportunities exerted by the current global and national socio-economic and other environmental factors. He thus, pointed out that the traditional way of managing cooperatives, will have many repercussions on their viability in the country. This is because, the time calls for a new mind set, quality leadership and modern management in order to ensure effectiveness and sustainability that enable cooperatives meet multiple objectives.

Studies made so far thus revealed the existence of problems related to governance and management but did not further go into assessing factors affecting managerial effectiveness of cooperatives. This study therefore, sets out to assess the factors affecting managerial effectiveness of cooperatives taking the case of Becho-WelisoFarmers' Cooperative Union.Becho-WelisoFarmers' Cooperative Union is selected for this study for four main reasons. One of these is that the prevailing practices in cooperatives worldwide and in Ethiopia, reveal that increased managerial and governance complications arise when coops grow in complexity and volumes of activities. In light of this, the union understudy is one of the few cooperative unions that are relatively growing complex along with the increased volume and diversity of its activities. It also works to serve 58 member primary coops coming from five of the eleven weredas in the zone. The second reason is that the coop union has passed through several ups and downs arising out of management related problems. The third one is that no one study conducted specifically focusing on identifying factors affecting managerial effectiveness in cooperatives so far and the fourth one is that the coop union is considered as a model cooperative union in the region.

## **1.2. Research problem statement**

In the current era of information where many people feel to lack power to overcome the challenges of increasingly dynamic environment with the usual individual effort, cooperatives are considered by many scholars to be among the best alternatives for the way out. Bello (2005:1) emphasized the role cooperatives as follows.

Cooperatives are strong, vibrant and viable economic alternative formed to meet the mutual needs of the people-which are built on the powerful idea that together, a group of people can achieve goals that none of them achieve alone.

Collier & Smith (as cited in Birchall& Simmons(2009:9-10) described that despite the various efforts made by the world community, larger population of the world is in poverty traps of various kind. Smith posits that poor people can get out of poverty traps through cooperation that helps them gain collective strength which they can't achieve working individually. He underlined that the best form of organization that can serve this purpose is cooperative.

Cooperatives are playing very significant role in encouraging agricultural production, creating employment opportunity, promoting democracy and ethical behaviors as well as fairness and justice in the market. Particularly in developing countries like Ethiopia, cooperatives are among the key local development actors that significantly contribute to poverty reduction and the improvement of the living conditions of the people. They have been an effective way for people to exert control over their economic livelihoods. Karlyle(2005: 4) stated that cooperatives provide organizational means to create productive employment for significant proportion of the people, overcoming poverty and achieving social integration, and is hence the only one available to enable the poor and those at the risk of becoming poor, to achieve economic security and acceptable standard and quality of life. Spielman (2008:1) also maintains that the membership-based organizations/MBOs like cooperatives can help the rural poor in developing countries, particularly Ethiopia, to overcome the deep and persistent market, state and institutional failures. The effectiveness of such cooperative human effort however, depends to a large extent, on the effectiveness of its management that makes efficient and effective use of limited resources pooled from members towards the achievement of intended goal of its members and the community it operates in.

Spielman (2008:1-3) however, identified a range of gaps/tensions that constrain cooperatives from playing their intended roles and discharging their responsibilities. Among the gaps identified, capacity limitation of cooperatives in light of their growing roles and responsibilities in the economy of the country, and inadequate efforts of cooperatives to develop their internal governance system and management processes to address issues related to external priorities and market opportunities coupled with limited inclusiveness of cooperatives are some of the major ones.

Bloom, et al. (2010:619-620) remarked that:

‘There has long been a suspicion that *poor management practices* have negatively affected the productivity of firms, particularly in developing as well as industrialized countries. ‘

Cooperative organizations are thus required to develop their *organizational competence* and *operational efficiency* through adoption of modern management practices within their context.

Studies conducted by Bezabih (2009) and UN (2002) revealed, despite stunning achievements and large scale successes recorded by some, cooperative movement in Ethiopia is being challenged by problems of **managerial effectiveness**. The need to ensure managerial effectiveness in the context of cooperatives while maintaining their identity is therefore the quest of the time in Ethiopia.

Considering the significant role of cooperatives as actors of local development and in improving the living conditions of the people, several studies had been undertaken on cooperatives some of which include Bezabih (2012), Karunakaran&Muhable (2013) and Hailu (2013), but less research attention is given to address the gaps in managerial effectiveness in cooperatives in Ethiopia including the coop union under study. This is because, the prevailing practice of cooperative management in Ethiopia, particularly at the higher level, shows that effectiveness of cooperatives depend to a greater extent on the competence and activities of managers than the passive representatives designated with governance role (the BOD). The purpose of this study is thus to investigate factors affecting managerial effectiveness of cooperatives with special emphasis on BechoWelisoFarmers’ Cooperative Union and come up with the likely solutions thereby forwarding areas for further research, if any.

### **1.3. Research questions**

This study aims at answering the following questions

1. Is governance (leadership) in the coop union capable of ensuring managerial effectiveness of the coop union?
2. How does the competence of managerial and non-managerial staff affect the managerial effectiveness of the coop union?
3. How does members' participation affect managerial effectiveness of the coop union?
4. How does the government influence/affect managerial effectiveness of the coop union?
5. How does competition affect managerial effectiveness of the coop union?
6. What contributions has the coop union been making to the local development endeavors of the Wereda?

### **1.4. Objectives of the study**

This study mainly aims at assessing factors affecting managerial effectiveness in the cooperative union under study in the light of theoretical and empirical perspectives and come up with possible recommendations to address the problems. Specifically, it seeks to:

- Assess:
  - ✓ Whether the governing body (GA & BODs) are playing their role to ensure effectiveness of their coop union by ensuring its managerial effectiveness of the coop union;
  - ✓ Competence gaps of managerial & non-managerial employees that affect managerial effectiveness of the coop union;
  - ✓ The nature of members' participation and its effect on managerial effectiveness of the coop union;
  - ✓ The role of the government in affecting/influencing managerial effectiveness of the coop union;
  - ✓ How competition affect managerial effectiveness of the coop union;
  - ✓ The contribution of the coop union to the local development endeavor of the woreda
- To forward recommendations to address the gaps/problems identified;

- To identify, if any, area/s for further research

## **1.5. Research Methodology**

### **1.5.1. Research design**

This research is based on case study design that involves investigation of the real life context data gathering techniques interviews and FGDs.

### **1.5.2. Sample selection**

As this research is based on case study research design and for the reasons mentioned under selection of the study area, Becho Weliso Farmers' Cooperative Union was purposively selected for this study.

Notwithstanding the fact that case study method is not sample based, having samples within the case will ease the study. Accordingly the universe/population within the case for this study consists of the 431 permanent employees at different levels of hierarchy, the 9 BOD members of the coop union, the 174 GA members of the cooperative union coming from 58 member primary cooperatives. Samples were selected from the different stakeholders using two stage sampling procedure. At first stage, 9 General Assembly (GA) members of the coop union were selected based on their relative exposure and knowledge of the coop union. At the second stage, convenience samples of 25 individuals were selected from other stakeholders (i.e. 4 BOD members and 16 employees' coop unions as well as 5 employees from organizing agency/OCPA).

### **1.5.3. Methods of data collection**

The study was based on both primary and secondary data. Primary data were collected from the selected samples, using data collection techniques like interviews, and focus group discussion. Moreover, secondary data were collected from documented sources of the cooperative unions, support organizations regulatory organs and other relevant sources.

### **1.5.4. Method of data analysis**

Qualitative methods of data analysis such as coding, describing and interpreting were employed in the analysis of the data collected for this study

## **1.6. Significance of the study**

Literatures revealed that, regardless of their potential to bring difference in the lives of the citizens, cooperatives in Ethiopia in most cases suffer from lack of organizational effectiveness which in turn arises, inter alia, challenges of managerial effectiveness that cooperatives in the country are currently facing. Effectiveness of managers is the best way for organizational effectiveness of cooperatives in the context of our country as coops operate under additional challenges emanating from their nature in addition to the challenges shared in common with other conventional businesses. The progress in cooperative sector in the country has thus so far been expressed in terms of numerical increase, not in terms of achievement of their purposes as revealed by Bezabih (2009). The findings of this study is thus expected to contribute to improvement of the gaps/problems in managerial effectiveness of the cooperative union under study by suggesting possible solutions for the identified problems and may also come up with other research agenda either new or test for replicability of findings of this research to other coops under similar or different conditions.

## **1.7. Scope (delimitation) of the study**

This study covers the investigation of factors affecting managerial effectiveness of Becho-WelisoFarmers' Cooperative Union based on data sourced from different source categories, viz. GA & BOD members, employees of the coop union (managerial and non-managerial) and COPA workers. .

## **1.8. Operational definitions of terms and concepts**

Definition of terms and concepts is cornered with giving contextual meaning for the terms/variables under investigation some and other closely terms.

1. Managerial effectiveness: The achievement of intended outcome of business undertaking of the coop union understudyin the light of its mission and identity;
2. Governance:
  - 2.1.The leadership role played by the GA and BODs of the coop union to realize effectiveness while maintaining coop identity, through promoting participation, transparency and accountability,

- 2.2. The development approach whereby the coop union plays its role in the local development endeavor of the wereda;
3. Members' Participation: Involvement of members of the coop union in governance and routine transaction of the coop union;
  4. Organizational structure: A framework that shows the organs required at different levels of the coop union and the link/relationship between them to realize the stated goal/mission;
  5. Organizational culture: established signs, beliefs and norms that direct or shape the behaviors of the people (members, staff and other stakeholders);
  6. Managerial competence: Refers to the situation where managers are equipped with the necessary managerial skills and motives required for managerial job such as communication skills, problem solving skills, people or teamwork skills, creativity and the likes taking into account the context of cooperatives;



# Chapter II

## Review of Related Literature

### *2.1. The concept of management*

Starting from the time when human beings began to form social organizations to accomplish certain aims and objectives that are beyond individual efforts, management has been one of the important human activities required to coordinate individual efforts and resources towards the achievement of the desired end.

Management, as described in Koontz & Wehnich (1994:25) is the process of designing and maintaining an environment in which individuals working together in groups to efficiently accomplish related aims.

Bowditch and Buono (as stated in Khader, 2012:16-17) indicated that the growing trends in complexity of managerial jobs necessitated a move towards more complicated models of human nature, and the resultant implications of how to manage people.

The traditional inflexible management approach thus could not enable organizations to remain viable in the environment which is growing more and more complex and competitive. To fit in to such environment, organizations are required to build the necessary adaptive capacity that keeps them agile and responsive to the changes in the environment. In other words, the situation calls for effective management in all organizations in general and in the context of cooperatives in particular, i.e. cooperatives require peculiar managerial art responsive to their dual nature need. For example, the management practice applied to IOF can't directly be applied to coops as they primarily stand to address failures of governances which is based on power of capital, which in turn is in contrast to coops those practice democratic management based on one-member-one-vote basis.

**Peter Drucker**(as quoted in BeeHive Digital Cochin, n.d:8) emphasized the significance of management with the following statement:

‘Management is what the modern world is all about.’

This statement implies that all the development that has taken place in the world is due to effective management. The significance of management reveals itself in that effective management encourages initiatives and innovation, facilitates growth and expansion through optimum use of resources, improves life of workers and motivates them, and improves relations and corporate image.

Basically there are three objectives of management: ensuring efficiency (achievement of organizational goals and targets at lowest possible cost), concern for staff wellbeing (health, safety, welfare), and safeguarding the property of the organization (human, material, finance, etc.).

Managers in every organization and every level thus undertake the five managerial functions namely: planning, organizing, staffing, leading, and controlling to realize these objectives (Olum2004:3).

## ***2.1. Management in cooperatives***

Cooperatives are unique forms of enterprises established to empower individuals through promoting formal self-help group effort. The purpose is to enable members of self-help groups to pool and make efficient use of limited resources towards realization of improved living conditions primarily of members and the community at large by addressing the constraints that are beyond individual efforts.

Lawless (2003:1) explained that moral and religious concerns once motivated many advocates of cooperatives which was based on the faith that religion dictates as a fundamental principle that social justice should prevail in the world. Cooperative societies’ ideology that guides their management thus drives its moral and social context from the reformist doctrine of Robert Owen, who advocated a new moral world free from profit, competition and exploitation.

Through cooperation, which is based on the principles of social justices, we build a society where these needy brothers will have a chance to live and contribute to the general good (Coady, as cited in Lawless, 2003).

A consensus based definition of a cooperative, adopted on the 1995 ICA conference, at Manchester is ‘an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise’. Cooperatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity’.

Various studies indicated that cooperatives play very significant role in poverty alleviation and socio-economic development endeavor of nations in many developing countries. However, cooperative movement in Africa in most cases experienced failure as African politics have not been particularly kind to cooperatives from 1960 onwards and hence cooperatives remained path-dependent (Develtere and Pollet, 2008:1-3 & 38). Hussi et al (1993), (as cited in Develtere and Pollet, 2008), however, posit that failures experienced by cooperatives in Sub-Saharan Africa often attributed to management problems caused by internal weaknesses. Bezabih(2009) and UN 2002) also pointed out that the situation of cooperatives in our country could not be exception to the problems of cooperatives discussed above.

Cooperative management is a management model which is based on two complementary principles, namely the principles of management and principle of cooperatives. MichaleLefteur (2005:3-6) remarked that management challenge in cooperatives is the practice of exercising the principles of cooperatives through which cooperative values are put in to practice. He underlined that the features of cooperative management may be unique in that activities of a cooperative are governed by the two principles, namely management principles and cooperative principles. This is because, creating and maintaining balance between business aspect and social aspect involves complex decision making process in an effort to meet interest of many stakeholders including members, employees, non-member customers, the government and the society at large. The author thus underlined that for cooperatives, to attain their objectives of meeting the needs of members and other stakeholders, need to ensure their managerial effectiveness in both social and economic terms (i.e. the need to meet required financial return as well as social responsibility, and ethical and moral development of members simultaneously).

## ***2.2. Managerial effectiveness***

An organization, according to Nwadukwe&Timinepere (2012:198 & 200), is an entity consciously setup for a purpose, i.e. to accomplish a specific objectives such as creation and delivery of goods and services that meet the needs and wants of customers. To survive and remain competitive in the dynamic global and local environment, therefore, organizations need to attain the quality of effectiveness which in turn is mainly dependent on managerial effectiveness. Pfeffer&Salancik (as cited in Vinitwatanakhun 1998:3) posit that organizations survive to the extent they are effective and they are effective to the extent their managers can manage environmental information and resource dependencies successfully. This is because environmental characteristics and uncertainties are among the important factors in defining organizational structure, strategy and performance.

The basic responsibility of modern managers, especially senior ones, is to effectively achieve organizational objectives by working with and getting things done through the people. This indeed involves identifying and complementing competency needs of the organization with the right managers and staff having the right skills and competences in the right position. The current dynamic and highly competitive organizational environment, however, makes the need to improve managerial effectiveness more demanding. This situation poses more burden particularly to managers of cooperatives who are required to be effective in the context of cooperatives which are governed by both principles of management (economic efficiency) and principles of cooperatives (social efficiency).

Effectiveness, refers to the goal-attainment of a measure (Meharg, 2009:1), what a manger achieves thus relating the outcome of a process to its original goals.

According to Luthans, Welsh, & Taylor (1988:1), organizational theorists and researchers have commonly used employee satisfaction, effort, or commitment as the key factors responsible to enhancing effectiveness, whereas those in policy look to strategic planning and structure interactions as a solution to increasing effectiveness and yet many writers with a financial perspective equate profit with effectiveness. Though Robbins and Coulter described managerial effectiveness as a function of manager's competence in relation to time management, there are three factors responsible for managerial effectiveness, namely, the efforts and abilities of managers, the environment in which the managers and the organization operate and the efforts and abilities of the subordinates.

Literatures on managerial effectiveness thus discussed managerial effectiveness from different perspectives/dimensions. The concern of some authors generally revolve around attributes related to managerial competencies like managerial ability, behaviors, perceptions, skills & knowledge and motivation, innovativeness and creativity and other managerial characteristic traits. Others discussed managerial effectiveness taking into account governance related factors which is closely linked with leadership role, organizational culture, organizational structure and members' involvement. Yet, others raise employee behavior (knowledge and skills, satisfaction, commitment and belongingness). This shows that many authors in their assessment of factors affecting managerial effectiveness have thus mainly focused on internal factors. This study, in addition to internal factors, strives to assess influence of external factors on managerial effectiveness in relation to the coop union understudy.

Managerial effectiveness is of more concern for cooperatives. This is because, like any other organizations, cooperatives cannot survive and thrive without effective management. Indeed, cooperatives exhibit fundamental difference from conventional businesses organizations in their objectives, process and products/services. The basic difference lies in the ideologies/philosophies that guide the organizations behavior. According to Veerakumaran (2006), cooperative societies' ideology drives its moral and social context from the reformist doctrine of Robert Owen, who advocated a new moral world free from profit, exploitation and unhealthy competition. Cooperatives also differ from other business organizations in that ownership, control, and use are integrated and vested in members as a body of people who renders managerial tasks of fulfilling the group aspiration. They are by nature the center where democracy is exercised as they are ideally suited for ensuring member participation in decision making (one-member-one-vote). Cooperatives, thus, besides promoting material wellbeing, aim at educational betterment, thrift, morals and democracy, and hence play a meaningful role in uplifting the socio-economic conditions of their members and their local communities. With their concern for their members and communities, they represent a model of economic enterprise that places high regard for democratic and human values and respect for the environment.

Cooperative managers require all the technical and managerial skills needed to manage any organization. Writers like Edgar Parnell (1995) argue that managing a cooperative is a tougher job than managing conventional businesses because of the dual nature of cooperatives. The

principles of management which measures management efficiency based on ROC (i.e. Profit/Capital) adapted from conventional businesses, is only of partial relevance to cooperatives. Because of their dual nature, cooperatives require entirely different approach to the management process which should realize success in both aspects through management functions (the enterprise aspect and association aspect), i.e. cooperatives evaluate management efficiency in terms of satisfaction (satisfaction of all types/total cost).

## **2.3. Internal and external organizational factors affecting managerial effectiveness**

There are several factors affecting the performance of companies be it IOF or others. These factors may come under two major categories, namely, internal organizational factors and external organizational factors. Internal organizational factors considered in this study comprise managerial competence, governance, organizational structure, members' participation and organizational culture; while external organizational factors include the role of government, regulatory organ and competition, and other local stakeholders like Wereda Administration.

### **2.3.1. Internal factors**

This part focuses on literatures related to internal organizational factors influencing managerial effectiveness in organizations including managerial competence, organizational structure governance, members' participation and organizational culture.

#### **2.3.1.1. Manager related factors**

##### **a) Managerial competence**

Managers play decisive role in contributing to effectiveness of the coop union by properly undertaking the five managerial functions of (planning, organizing/COORDINATING, staffing, leading and controlling) while not violating coop identity. Now days, cooperatives, like other conventional businesses, operate in unpredictable, dynamic and highly competitive environment. This situation is critically challenging the business as usual and hence managerial competence has become more demanding.

According to Bhardwaj &Punia (2013:1) every business organization needs managers to be successful in today's highly competitive and dynamic business environment. Every successful

and effective manager need to possess several competencies that enable him/her perform efficiently and effectively at different managerial levels.

Many scholars stressed factors affecting managerial competence such as existence of effective communication system, team building and provocativeness, (Shirazi&Morazavi,as explained in Bhardwaj &Punia 2013:71-74); knowledge, skill and abilities to perform their task along with the motivation to this behavior and willingness to spend the necessary energy. Woodruff (as cited in Krajcovicova, Caganova&Cambal, 2012) stressed that, to be effective, organizations should be able to clearly indicate their requirements in the light of the duties to be accomplished towards achievement of their mission and the managerial competencies required to ensure achievement of set goals. Other authors like Cumutto (as cited in Bhardwaji&Punia 2013),Lauguna, Wiechetek and Talik(2007), Oelblebixi and Cetin (2015) identified managerial competence, principal-agent problems, skill gaps and perception as some of the major factors affecting managerial effectiveness.

Competence is the demonstrated ability to apply knowledge and/or skills, and, where relevant, demonstrated personal attributes, hence it is essentially is a combination of knowledge, skills, behaviors and attitudes that contribute to personal effectiveness and are what a person needs to be effective in a wide range of positions and varying organizations (Hellriegel, et.al. stated in Bhardwaji&Punia, 2013)).Caupin, et al. (2006) identified three core elements of competencies, viz. 1. **contextual competencies** comprising of the nature of cooperatives enterprises, business they undertake, personnel management, systems, products & technology, safety, finance and legal; 2. **Behavioral competence** comprising of leadership, engagement and motivation, self-control, assertiveness, openness, creativity, result orientation, efficacy, conflict resolution, integrity/ethical orientation, and 3. **Technical competence** include the skill and knowledge to effectively run businesses in the context of cooperatives

#### **b) Principal agent problems**

Principal-agent problems is one of the major problems affecting managerial effectiveness, particularly in conventional business organizations. Though cooperatives differ from conventional businesses in management and ownership, it is less likely to fully avoid the

problem arising from principal-agent relationship as there is severance between the office holding BOD and the members, and between the BOD and the management.

Alchain&Demsitz, and Royes (as explained in Ortmann& King, 2007:54) stated that principal-agent problems are the results of non-coincidence of the objectives of the agent and those of the principal, and hence the agent may not always best represent the interests of the principal. Ortmann& King(ibid) thus underlined that agency theory is very relevant to the institutional structure of cooperatives because employed agents (managers) may not act in the best interests of the coop owner-members (principals).

From their study that compared cooperatives directly with IOF (or members' expectation with those they perceived were held by their managers) in terms of basis for designing managers' compensation,Richards, Klein and Walburger, (1998:21-22) argued that that cooperatives lack a common metrics from which to design managerial compensation (incentive) schemes.Hence, they discovered that cooperative owners are less able to provide incentives to managers to align their personal objectives with those of the organization unlike in the case of the IOFs pursuing profit maximization objective, who monitor the performance of managers in terms of profit (ROI) and design their incentive schemes based on same. Besides, Alberta, Chanddad, Richard et al. (as given in Ortmann and King, 2007:55) found from the comparison they made of members' objective/expectation/ with those they perceived were held by their managers that 'younger farmers and large producers, for example, felt that mangers focused too much on the social role of cooperatives and not enough on profit issues such as higher price, ROI & quality service', (lack of balance between the two aspects of coop union). These two groups seemed to be least satisfied with their cooperative (managers') performance.

### **c) Managerial skill gaps**

Rosaline(2013) underlined that managerial skills are inevitably the essential building blocks of any organizational work progress.The author found thatmanagerial skill gap exists when a manager fails to possess and apply the requisite managerial knowledge or skills necessary to perform at a high level in the context of coops. When organizations allow management skill gap 'to exist they will be forced to undergo various difficulties like, 1) failure to achieve performance goals for the organization; 2)frequent loss of productivity to the advantage of competitors and 3)a host of negative people issues such as loss of team work /team spirit, ineffective



communication, breakdowns, a degeneration of morale and increased work place stress will prevail.

The author thus recommended skill development training, proper coaching and providing adequate empowerment to managers to meet the intended goal of the organization efficiently and effectively in such ultra-competitive world where businesses frequently fail to develop, and train the managers in the organization to competently face the challenge of losing competitive advantage.

#### **d) Managers' perception of managerial effectiveness**

Managerial effectiveness as emphasized by many writers like Meharg (2009:1) and Bhardwaji & Punia (2013), is the achievement of set goal of an organization. Perception is an important aspect of human behavior. Leaders and managers being human beings can significantly be influenced by their perception about leadership and managerial issues such as managerial effectiveness.

According to Ozleblebici and Cetin (2015:297), people's perception can directly influence the strategic thinking and decision making of managers and on the entire strategic management process. Beyer et al (in Ozleblebici and Cetin, 2015: 297), citing the findings of organizational researchers, stated that many vital decisions taken in organizations likely be affected by managers' individual cognitive process (perception).

#### **2.3.1.2. Non-managerial staff related factors**

Employees have significant role in ensuring managerial effectiveness of the coop union. Employee motivation, which comes out of involvement, empowerment, and satisfaction, is among factors significantly affecting managerial effectiveness.

Apostolou (2010:3), citing the experience of Japanese, hold that the only one thing that differentiates one company from another is its people, not its products/services, not its processes, not its strategy or secret ingredients, as all these can ultimately be copied or duplicated. The author thus believes that involvement helps to empower employees to participate in managerial decision making and activities appropriate to their levels in the organization. However, Constant, et al. 2001 ( as mentioned in Manzoor, n.d: 41) remarked that autocratic leadership styles,

mechanical design of organization, and authoritarian rules as practiced in African organizations are all where decision making is given to top management and employees are just given orders to accomplish different tasks. In this type of organizational environment, the employees may suppress innovativeness and motivation, which in turn has a direct negative effect on organizational performance and effectiveness.

Smith (as explained in Manzoor, n.d.:40), on the other hand, pointed out that empowering makes employees feel that they are appreciated and need feedback on their performance. Mathew (as cited in Manzoor, *ibid*) remarked that employee empowerment and participation consists of employees in administration and decision making associated to policies, objectives, and strategies of the organization. The author held that employee empowerment, with the underlying principle of giving employees freedom, flexibility, and power (authority) to make decisions and solve problems, leaves an employee energized, capable and determined to make the organization successful and hence provides benefits to organization in that it make the employees develop sense of belongingness and pride. Such management practice increases employees' *quality of work, satisfaction, collaboration and productivity*.

Matthew (*ibid*) further stressed the importance of employee satisfaction saying that an internally satisfied and delighted worker or employee is actually a productive employee in any organization which contribute to efficiency and effectiveness of organization.

Krajcovicova, Caganova&Cambal (2012: 2) thus suggested that by identifying the requirements of employees correctly and properly developing their needs, it is possible to increase their performance through appropriate education/training as well as [effective communication, motivation, involvement, empowerment and coaching).

### **2.3.1.3. Governance**

According to Banco Central DO Brasil (2008:11), the need for governance emerged with the emergence of large and complex companies those need to be run by professional managers separate from owners/shareholders.

Different authors defined the concept Corporate Governance in different ways. Gregory and Simms (1999:2) defined corporate governance as the framework that encompasses the combination of laws, regulations, listing rules, and voluntary private sector practices (to attract

capital, perform efficiently, generate profit) and meet both legal obligations and general social expectations.

The need for good governance in organizations is growing in response to the fast changing, dynamic and competitive business environment in which organizations are operating. In such an environment, achieving and sustaining success and ensuring development undoubtedly calls for strong and good governance in place which provides proper strategic direction to the managerial staff in order to lead the organization on the right track towards achieving the set mission.

### **i) Cooperative Governance**

Co-operative governance is concerned with the processes and structures used to direct and manage the co-op's operations and activities. Good governance helps organizations use their resources more effectively and ensures that they are managed in the best interests of their members and principal stakeholders (Lang, n.d:1). Banko Central do Brasil, (2008:11) explained cooperative governance as a set of internal and external mechanisms and controls enabling the members to define and ensure attainment of objectives, ensure their continuity and adherence to cooperative principles. Karthikeyan (2009) also stated cooperative governance as a pure democratic self-governance system of managing a cooperative entity based on and complying with the principles, values and philosophy of cooperation through the appropriate and effective organizational structure with conducive culture and ethical climate, organizational machinery that includes management and administrative professionals at various levels / layers of functioning (internal governance aspect) within the parameters of legal provisions and policy framework of the government (external governance aspect), 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.

Characterized as a partnership of individuals, as opposed to partnership of capital in IOF, cooperatives rely on voluntary and free association of individuals, democratic management, economic participation of members, and autonomy and independence as the basic principles for their management. Therefore, contrary to what occurs in large private companies, cooperatives are managed by their members, who are the "business owners", on a one-member-one-vote basis,

independently from the amount of capital held in the cooperative. Moreover, the pursuit of profits is not point of prior concern for members and cooperative targets are long-term ones, the main focus being serving the needs of the cooperative owners (BankoCenral Do Brasil, 2008:12). This shows that cooperatives, unlike IOF, are managed and governed in accordance with their own principles and values.

BankoCenral Do Brasil (ibid) also held that as the effect of principal agent problems (i.e., segregation between office holding BODs & executives, and non-office holding members), the non-office holding members have been observed to be passive players because of lack of access to information and limited knowledge of the practices and operation of the cooperative business unlike the BOD and executives holding office. The situation was reported to have resulted in hitchhiking effect which is one of governance problems giving room for free-rider problems that leads to isomorphism.

Experiences from Brasil revealed that hitchhiking effect as one of governance problems results when members' participation is too weak/shy because of the feeling that their individual contribution to the whole is very meagre or can't enable them capture significant individual benefit. The writer thus underlined that strengthening participation and representativeness is crucial to corporate governance in cooperatives by empowering the members and others concerned in such a way by increasing their access to information, enhancing their knowledge and ability to decide. (Banklo Central Do Bazil, 2008:13).

Benner (as explained in Novkovic, n.d.:289-90) revealed that under the situation where elites (self-interested members) take advantage of maximizing their gain at the expense of other members, members' confidence will be eroded leading to their loss of trust and loyalty on their coop. This results in stunted participation ultimately suffering isomorphism and agency problems like that of IOF where non-expert BOD lose touch with members and become weak to govern effectively.

The writer argues that since cooperatives do not trade their shares in the capital markets their management compensation can't be linked to their stock performance (i.e. return on capital/ROI). The misconception taken by the neo-classical writers that cooperatives' share should be traded in the capital market is the indication of bias against unconventional forms of

organization (Fonteyene as cited in Novkovic, n.d.:290) which in turn has arisen out of the misconception of purpose and character of cooperative societies.

Oman and Blume (as discussed in Shaw 2006:2) remarked that as opposed to IOF, coops have combined different interests (plurality) within a single enterprise. In line with their dual nature, coops have thus always faced complex governance problems/challenges emanating from their dual nature.

Shared principles of cooperatives lay the ground for balancing the two opposing individual member behaviors, in cooperatives which leads to dual motives driven by compromise, fairness and justice; but require awareness, education and tools to carry out the task along with well-established institutional framework. These cooperative principles may not be mandatory depending on the legal frames of the country which provide guidelines as to how coops should be owned and governed.

Kuria's(2012:12) findings of key of challenges to effective leadership and governance in cooperatives include: inadequate or superficial understanding of the philosophy of cooperative enterprise among political leadership, policy makers and themembers; inappropriate legislation by governments resulting in control of cooperatives and dependence as opposed to encouraging capacity development and associative autonomy forsustainability; absence of or inadequate organizational capacity (technical, human and financial) within the cooperative sector in many countries due to the social nature of cooperatives; absence of professionalism and integrity in the name of democratic control by the members of the cooperatives, and abuse of the principles of democratic control by leaders where members through general meetings approve businessdecisions without due consideration to their implications(financial and non-financial).

## **ii) Cooperative values and principles**

Cooperatives are unique forms of enterprise with some distinct characteristics reflected in their principles and values.

According to ICA's Manchester Conference of 1995 statement of cooperative identity, cooperatives are based on values of two categories namely:*basic/operationalvalues* consisting of values of self-responsibility, equality, equity, democracy and solidarity, while *ethical values*comprises honesty, openness and social responsibility.

Cooperative principles, ICA (ibid), are commandments or guidelines through which cooperatives put their values into practice and judge (i.e. used for judging behavior and for making decisions). They are empowering frameworks and energizing agents through which cooperatives can grasp the future which are applied with varying degrees of detail to different kinds of cooperatives under different kinds of situations. ICA's recommendation thus strongly stressed that cooperatives are thus judged on how well they adhere to principles in their entirety.

ICA (ibid) adopted seven internationally accepted principles of cooperatives including, 1. Voluntary and open membership, 2. Democratic member control, 3. Member economic participation, 4. Autonomy and independence, 5. Education, training and information, 6. Cooperation among cooperatives, and 7. Concern for community.

Novkovic, (n.d.:292) thus held that the cooperative business model is not best suited to either purely economic goal or purely social goal but seeks to achieve a better output from balanced combination of the two.

In line with the above, Shaw (2006: 6, 17-18) found that there is implementation gap of these cooperative principles particularly members' economic participation, democratic control and autonomy and independence weakening the governance of coops in developing countries. The writer also underlined that unlike the experience of the OECD countries, cooperative governance in developing countries is based on the legacy of the government control and intervention into the cooperative, which in most cases derives from colonial origins of the coop sector.

Characterized by inadequately developed legal and regulatory system, enforcement capacities and inadequately developed private sector institutions required to support effective corporate governance, developing countries might need governance reforms in cooperatives to enhance effectiveness of cooperatives (Gregory and Simms 1999: 6).

The findings of studies conducted on cooperative sector in many developing countries (including many African countries such as South Africa, Tanzania, Ethiopia and others), upon dawn of free market policy adoption, support the findings of Gregory and Simms. The major governance challenges identified in this regard include, inflexible legal environment, ineffective governance because of lack of governance standards arising out of low level of education, lack of professional and experienced leadership and weak management, lack of active members' participation, undue political and bureaucratic interventions (lack/weak internal control and

checks) which contributed towards high level of dishonesty and corruption, lack of autonomy and independence, and male domination at individual member and management level. Consequently, many developing countries have thus been engaged in implementing reforms for cooperative development with the aim of making coops economically viable, member owned and controlled enterprise. (Shaw 2006:20-29) however argues that fast withdrawal of government in Africa in the phase of liberalization exposed cooperatives to negative results such as mismanagement, corruption, theft and in some cases collapse.

#### **2.3.1.4. Member participation**

Members' participation is crucial for survival, viability and success of cooperatives. Gray & Kraenzle (1998: 1) emphasized the importance of members' participation saying 'there is no cooperative without members' participation'.

Members participate in their cooperatives in many different ways. But all may come under one of the three major categories, viz. governance, routine transactions and safeguarding. Members participate in governance by deliberating on higher level issues at its GA, serving as elected officials (BOD or BOD sub-committee member) or in other committees. Members' participation is therefore holistic, i.e. not limited to economic alone or democratic decision making either. If members' participation is limited to economic patronage, the cooperative is no more than conventional business, (Pozzobon & Zylbersztajib, 2011: 1 and Gray & Kraenzle, 1998: 1).

Shaw (2006: 6) supported this idea with her argument that in cooperative members work to balance their two opposing behaviors, self-interest and social interest, through democratic member governance which calls for active and full member participation. A higher level of members' participation, which enhances democratic decision as more members participate in decision making at GA or BOD meetings minimizes agency problems.

Considering the importance of members' participation in both governance and activities to ensure viability of cooperatives, the major challenges cooperatives currently face are how to enhance democratic member control (decision making) and agency problems emanating from the severance between management and leaders/directors esp. at higher level cooperatives and aggravated by the dual nature of cooperatives.

The findings of studies conducted by Osterberg, Hakelius&Nilson (2007: 10-13) on members' trust and commitment as factors affecting members' perception of participation in governance of their cooperative discovered that, cooperatives to a large extent have both social and economic aims as it was discovered from the fact that only members with moderate profitability are seen to have trust in their BOD and perception of participation in governance while those with high profitability (as a result of service from their coop) are seen to have low trust on BOD and perception of participation in governance.

The members' acceptance of the principles of equal voting rights (one-member-one-vote) regardless of the amount of share capital held, according to the study shows that services are more than prices, where cross-subsidization occurs and may unduly need large number of elected representatives (council of coop).

#### **2.3.1.5. Organizational structure**

Different authors, though in varying expressions, all emphasized that organizational structure is an internal differentiation, grouping and coordination of jobs that helps to establish lines of flows of authority and accountability as well as information for smooth functioning of organizational tasks at different levels.

Organizational structure according to Tran and Tian (2013:229) helps to ensure effectiveness (achievement of organizational goals) by ensuring effectiveness of the management through differentiation (grouping of activities) and integration (coordination) of grouped units/sections.

A good organizational structure, according to the authors is one that ensures alignment of organizational purpose with organizational resources aimed at fulfilling members' interests. The author explained that nature of organizational structure can either promote or hinder organizational efficiency and adaptability. There are instances where inflexible traditional organizational structure may cause an organization to lose competitive advantage as it fails to meet requirements of efficiency and adaptability.

The impact of organizational structure on organizational effectiveness is more boldly reflected when company grows in size and complexity and in that it determines the flow of relevant information.



Walton (as mentioned in Tran & Tian 2013 p 231) observed the existence of strong link between structure and effectiveness asserting that management restructuring is designed to increase not only efficiency but also effectiveness of the management. He argues that appropriate structure must ensure that the most important types of coordination and alignment occurs. Through differentiation and grouping, organizations arrange their specific functions into departments as marketing, accounting, finance, engineering, etc. with the aim of using experiences of groups to accomplish tasks and projects.

### **2.3.1.6. Organizational culture**

Culture is a set of characteristics (observable and unobservable/formal and informal) which determine the rules shaping the entire behavior of an organization. It includes language, symbols, social habits, dressing, logos, colors, naming and other features. It is thus the summation of knowledge, experience, beliefs, values attitudes, meanings, hierarchies, relationship, notion of time and roles.

Culture is the collective programming of the mind which distinguishes the members of one group or category of people from another, Hofstede, as mentioned in Buter, 2012:12-13) and as a set of beliefs, values, common understandings/shared vision, thinking and norms of behavior that are shared by all members of a society, (Mobley, Wang and Fang, 2005:12). It is something shared by almost all members of some social group; where the older members of the group try to pass on something to the younger members (as in the case of morals, values and customs that shape behaviors).

As explained by Schein (1985) and Martins and Martins (2003:385), to realize their vision and goals, founders/leaders who are influential individuals of an organization, create organizational culture that fit to their specific values and belief using various mechanisms such as appointing and keeping only those employees who think and feel the way they do, indoctrinating and socializing these individuals to their way of thinking, and finally encouraging employees to internalizing their beliefs, values and assumptions and identify themselves with them using their own (founders) behaviors as a role model. Brown (1998: 48) added that in building their organizations, founders tend to impose their beliefs and values about the nature of the, organizations and human nature on other organizational participants.

Literatures show that culture influence organizational performance in two major ways, viz. *internal organizational integration* and *external adaptation*. Cultural influence on organizational performance may come through influencing shared values, beliefs and common assumptions to be held by the participants (members, BOD, Management and employees) of an organization. Studies revealed that a strong and cohesive organizational culture is therefore a powerful force which has great influence on the behavior of the organizational members in that it enables them share the core values, beliefs and common assumptions equally which ultimately reduce potential conflicts, cultivate learning environments and lower staff turn-over.

Through their eleven years research, Kotter and Haskett's (as given in Mobley, Wang & Fang 2005: 12-13) discovered that companies having cultures that emphasize all the key constituents (owners, customers, stakeholders, employees) outperform by a large margin firms lacking those cultural traits.

A good organizational culture is one that has adequate room for flexibility to cope with external change where each individual, from top management to bottom employees, should be open to change. In other words, a desired organizational culture should be *stable* and *flexible*, i.e. stable in their vision, values and mission, but flexible in their structure and operation to ease adaptability. It should focus on both *external adaptation* and *internal integration*, i.e. it should be able to be adaptable to the customers, market and other external stakeholders and satisfying to the employees at the same time.

In view of the implications of organizational culture on performance of organizations, Gideon, Sonrandein and Georgina (2005:11) explained that effectiveness and competitiveness of organizations in Africa are challenged among others, by poorly developed organizational culture. The findings of the study conducted by many researchers from 2006-2009 (as given in Gideon, Sonrandein and Georgina (ibid) revealed that less attention has been given to human resource of organizations, esp. in Africa while it is a source of competitive advantage in contemporary management practices.

Ahiauзу (as cited in Gideon, Sonrandein and Georgina (2013:12) points out that effectiveness of human resources is questionable as there is low attitude to work in modern African work place as

compared to the industrialized Western countries in spite of adopting Western management practices.

Evidences presented by the authors indicated that financial reward based performance improvement effort which are focusing on efficiency principles, could not lead to intended effectiveness of the organizations in Africa as it lacks consideration of other aspects like organizational culture. This is because culture can negatively influence performance of organizations if not shaped in a way that promote the mission and goals of the organization.

### **2.3.2. External organizational factors Vs Managerial effectiveness**

Effectiveness, as some sources show, is an external measure of internal organizational performance as it is dependent on the perception (evaluation) of those who receive the service/product (i.e. stakeholders, clients, customers, or others).

The organizational level competency based approach, from its analysis of the outward looking long term future oriented internal and external influences on the organization, derived that organizations can use the manager's competency to build on internal strengths and exploit external opportunities as organizations are not closed systems. Organizations thus can be influenced not only by internal factors but also external factor. This shows that an organization creates the system and environment with the help of the skills and characteristics of its managers that helps them achieve the strategic intent. It focuses on creating conditions that enable the organization work towards achievement of its vision, mission and goals through development of SPM and other tools for effectiveness. Cooperatives are one form of enterprise created in such way having their own unique features. For cooperatives, though it is ideally the internal factors that can have more significant effect on their performance, the real situation in developing countries like Africa, depicted that the external factors predominantly affect the performance of cooperatives (Linda, Chambo& Carpophores and ILO, *ibid.* 30-31).

In this study the effect of government (through its legislature and regulatory role) and competition on managerial effectiveness of the coop union has been assessed.

But for cooperatives, it is mainly internal measures as members are owners, controllers and users/customers of their coop.

### **2.3.2.1. The Role of government in cooperative development**

Government plays very prominent role in development of cooperatives through formation of regulatory institutions (rules and regulations, regulating agency dealing with regulation and support services, etc.), capacity development (in terms of HR, finance, technology, knowledge and skill, research) and creating favorable conditions for active involvement of cooperatives in local and national socio-economic development affairs and other related conditions. In fact, the support intervention of the government depends on the role the government assigns to cooperatives to play in its socio-economic development endeavors or the extent to which they shoulder delivery of goods and services designed to address market failures.

Cooperatives address problems of founding, self-help individual members-owners-users, particularly of the less disadvantaged ones by pooling resources in terms of finance, skill, materials, entrepreneurship and management. They further address problems beyond a single cooperative society through application of the principle of cooperative, 'cooperation among cooperatives' (which can be both horizontal and vertical).

Kuria (2012:2) findings' that states that cooperatives are *instruments of local development* which with a global outreach, able to create employment opportunities, market channels and wealth for millions of persons and multiple communities affected by social problems and poverty, strengthen the above idea. The author thus emphasized the need for urgent revitalization of cooperatives to address the present challenges of cooperatives.

Recommendation of ILO and experiences of some African countries with respect to the role of government for cooperative development are briefly discussed as below.

#### **a) Experience of South Africa**

A study conducted by dti (2004:10) reveals that the Government of South Africa acknowledges that cooperatives have a vast development potentials in terms of a) creating and developing income-generating activities and sustainable decent employment; (b) developing human resources capacities and knowledge of the values, advantages and benefits of the co-operative movement through education and training; (c) developing their business potential, including entrepreneurial and managerial capacities; (d) strengthening their competitiveness as well as gain access to markets and to institutional finance; (e) increasing savings and investment; (f)

improving social and economic well-being, taking into account the need to eliminate all forms of discrimination; (g) contributing to sustainable human development; (h) establishing and expanding a viable and dynamic distinctive sector of the economy which responds to the social and economic needs of the community; and (i) enhancing broad-based economic empowerment, thereby assisting the Government in achieving the objectives of its macro-economic reform strategy..

The government of the country have thus been giving due recognition to the inherent special potential possessed by the co-operatives in socio-economic development because of their salient feature (double nature) and dedicated provide all required support intervention, i.e. the government has: 1) developed a policy document indicating the government's role and support to cooperative development in South Africa to be one of creating favorable legal, economic, administrative and institutional environment by, among others: 2) (b) Reforming the co-operatives administration; 3) Giving a clear legal definition of a genuine co-operative enterprise; 4) Ensuring that the legal framework does not hinder the development and growth of cooperative enterprises; 5) Making a clear distinction between technical support services to co-operatives and the regulatory functions of the state; 6) Facilitating the formation of co-operatives with the objective of encouraging instead of replacing self-help; 7) Allowing co-operatives to set up their own support service institutions (through vertical and horizontal integration that deal with the issues of cooperatives on behalf of the government, i.e. from primary to the national apex organizations); 8) Coordinating and orienting external assistance to co-operatives and self-help groups(dti,ibid:29).

It can hence be emphasized that though co-operatives are not government organizations, they need special attention and support from government as they are sharing the burden of government by playing role in addressing market failures.

The dti further revealed that the government recognizes that co-operatives play an important role in the growth of the local economy. Local government has thus an important role to play in supporting co-operative development and providing an environment at the grassroots in which co-operative enterprises can flourish through existing programmes such as Integrated Sustainable Rural Development Strategy (ISRDS). In turn, co-operative enterprises enable local people to

directly get involved in producing and delivering goods and services that their members and the community require.

### **b) Experience from Rwanda**

In contrast to the experiences of South Africa discussed above, (dti, *ibid.* 29), Linda, Chambo and Carpophores (as cited in Musahara 2012:7-9) have identified the most pertinent problems (internal and external) facing cooperatives in Rwanda. The external environment factors include lack of clarity between associations and co-operatives; that the four-tier structure is not set by the members but by the government, lack of mid-level management training, continuing promotion of new co-operatives in new sectors including finance and that there is a strong agricultural science sector but weak traditions of participatory extension.

ILO (as given in Musahara 2012: 8) too, noted that cooperatives should not be used as instruments of the state and the movement should move away from over dependency on the state. Cooperatives should not appear to be mere conduits of loans and inputs, aid from donors or for political indoctrination. The government should support cooperatives for what they do and how well they do it by enacting and enforcing proper laws and regulations to make them viable and competent within their context.

The existing practice however, shows that cooperatives have become very attractive institutions for government operations as in many developing countries as people organized in associations are usually good for political purposes and used as convenient channels.

The situation puts to challenge the implementation of the core principles of cooperatives including voluntary and open membership and democratic members' control. Voluntary and open membership is misunderstood in that membership of a coop is taken as a condition for getting support from the government through cooperatives. Under such environment, democratic members' control is also in challenge in that majority decision based on one-member-one-vote may not work as elites, government agencies and other stakeholders indirectly influence decisions for good or bad reasons.

Linda, Chambo and Carpophores indicated that ideally cooperatives are good bottom up grass root organizations which with vertical growth could have immense impact on the welfare of the people. But with their attraction to governments, NGOs and other stakeholders, they are prone to

control and affected by top down decision making. On the other hand the tendency for political groups to entice support of cooperatives is abuse of the noble roles of cooperatives. In other words if the cooperative movement within the global network can impress on their communities to abide by their principles and values they would be too formidable forces for governments and international organizations to interfere.

## **ii) ILO's recommendation**

ILO (2012:3-5), in its recommendation 193 indicated the important roles of government in promotion and development of cooperatives. It has underlined that cooperatives are among the necessities for the existence of a balanced societies and hence need favorable government support in terms of policy and legal framework consistent with the identity of cooperatives (culture, principles and values of cooperatives). These may include provision of appropriate policies, establishing institutional framework dealing with registration and oversight without violating the cooperative principles, enforcement of polices and other legal frameworks applicable to the context of cooperatives, enforcing healthy and fair competition in the market and other relevant measures necessary to the context of cooperatives. ILO thus stressed that the government should take into account that: values and principles of cooperative should be considered as pillars in promoting cooperatives as economic and social development actors; introduce support measures, where appropriate, for the activities of cooperatives that meet specific social and public policy outcomes, such as employment promotion or the development of activities benefiting disadvantaged groups or regions (such measures as tax benefits, loans, grants, access to public works programmes, special procurement provisions and the likes); give special consideration to increasing women's participation in the cooperative movement at all levels, particularly at management and leadership levels; facilitate access of cooperatives to support services (including HRD, research and management consultancy services, access to finance and investment, accountancy and audit services, management information services, information and public relations services, consultancy services on technology and innovation, legal and taxation services, support services for marketing and other support services where

appropriate) in order to strengthen them, their business viability and their capacity to create employment and income.

ILO thus underlined that governments should recognize the role of cooperatives and their organizations by developing appropriate instruments aimed at creating and strengthening cooperatives at local and national levels.

### **2.3.2.2. Competition**

In the current uncertain and dynamic local and global environment, the survival and continued success of companies depend on their ability to maintain better competitive position over their rivals.

Day & Wensley, and Cravens (as cited in Nilson & Dijk, 1997: 208-209), remarked, for companies to remain viable in the face of the intensively competitive local and global market environment, need to steadily monitor the entire business environment from local to global and should secure competitive advantage. This indeed calls for increased responsibility of managers to steadily scan their internal and external environment to identify the strength and weaknesses of the organization on one hand and the opportunities and threats posed by the external environment on the other, so as to develop appropriate strategy to tap the opportunities thereby minimizing threats.

Though competition is considered as the best available tool to stimulate development and maintain consumer wellbeing, excessive competition by itself is the cause, not the cure of problems, as at times completion does harm to the society (Stucke, 2013:162).

Grilio (2013: 37) pointed out that the old belief based on the efficiency rationale of capitalism that advocate that the only efficient way of organizing and delivering goods and services were thought to be done through IOF, has been challenged by the modern theory which has come up with justifiable efficiency rationale for non-investor owned firms (of which cooperatives take lion's share). It argues that efficiency rationale exists for a range of non-investor owned firms in free market economy. The view that, in several circumstances, cooperative firms have an



“efficient merit” of their own as an alternative way of organizing production has deeply impacted on the understanding of how cooperative operate in the market which they can prove by acting in the competitive market arena just like any IOF though preferential policies are still necessary conditions to help cooperatives stand on their own foot.

The modern theory according to Grilio (ibid), thus contrasts the old presumption biased toward IOF with the evidence that in both developed and developing economies, non-investor owned firms (large constituent of which is cooperative), have been playing prominent role as alternative way of organizing production and delivery of goods and services as cooperatives adhere to the principle of “share and share alike” among their members, i.e. the group of stakeholders holding the residual rights of control, which according to the traditional view involves costs in terms of lower efficiency.

According to the author, alternatives to reap benefits from trade in the market can take place either on individual basis or collectively. Different sources of collective benefits may require different ways of coordination and thus different ownership structure for the firm. A cooperative firm comes into being whenever there is the possibility for enlarged expected return for the self-help groups forming it who seize the residual rights of control.

Within such framework, regulations favoring market based mechanism undoubtedly have impact on the working of cooperatives as it considers efficiency rationale in line with the view that favors IOF, i.e. it does not give balanced attention to both IOF and non-IOF, i.e. the benefits of cooperation can be hampered in an enlarged market context.

## Chapter III

### Findings and Discussion

This chapter is mainly concerned with summary, presentation, discussion/interpretation of the research findings based on the qualitative data collected from different sources through interview and FGD.

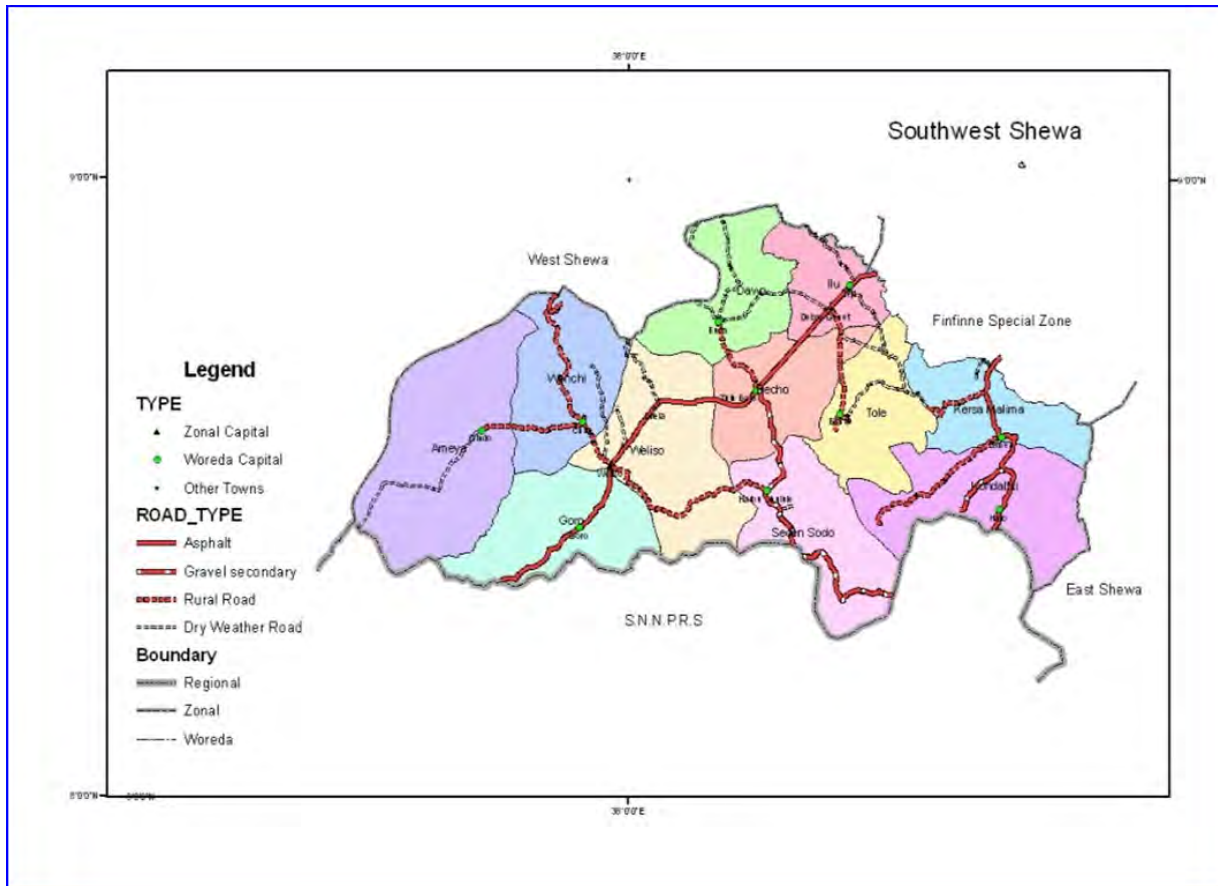
#### 3.1. Description and selection of the study area

Located at the central part of the country, Oromia is one of the nine National Regional States of the FDRE. It has a total area of 363,136 km<sup>2</sup> and a total population of 34,254,987 (projected from CSA 2007 census report). It is subdivided into 18 zones of which South West Showa Zones is one.

Currently, 3.5 million residents (10 % of the total population of the region) having total households of about 19 million (more than 56%) have been organized in to 18,038 different types cooperatives. Cooperative sector therefore supports the lives of more than half of the people of the region (OCPA, 2014).

(Study area)





Source Oromia Bureau of Finance and Economic Development

Figure 2: Location of TulluBollo town (hosting the coop union) in South West Showa Administrative Zone

### 3.2. Brief background of the coop union

BachoWeliso Farmers’ Cooperative Union is one of the pioneers of cooperative unions in the country. It was established in July, 2000 with affiliation of 10 primary cooperatives having a total individual membership of 11,599. It was established with the startup capital of birr 140, 000 share capital mobilized from the 10 member primary coops. The coop was then addressing a total of 11, 599 members under the 10 member primary coops.

The very purpose for the establishment of the coop union is to improve the livelihoods of its members’ through various capacity building interventions, provision of agricultural inputs and modern agricultural technologies, and engaging in agro-processing and other related activities to add value to products of its members. By doing so, the coop union also contributes to agricultural transformation endeavor of the country. To this effect, it has been providing multitude of services to its members and the community it operates in, namely, distribution of fertilizer and

improved seeds, improved agricultural production system, transportation service, agricultural output marketing service (both purchase of the product and provision of relevant information), PP bag and PP Mat production and distribution, ware house service, market stabilization role (engaging in supply of both agricultural products and industrial goods), and fulfilling its social responsibilities like construction of health centers (both human and animal), environmental conservation, supporting the disabled, and training and accountancy service to member primary cooperatives.

The coop union thus stands to realize the vision of improving members' livelihood through increasing production and productivity, making use of modern agricultural technologies, facilitating markets for members' products, contributing to agricultural transformation endeavors through promotion of agro-processing, and enhancing members' social, technical and managerial abilities along with their saving habits to encourage investment.

The coop union is currently in fast growth process both in size and complexity arising out of diversity and increasing volume of activities. The current performance status of the coop union, briefly given in table below, shows that it has shown very significant change from the time of establishment.

Table 1: Performance trend of the coop union in membership, capital & profit

Ref No	Items	At establishment (July 2000)	2001-2013	Current (June 2015)
1	Membership			
	No of member primary coops	10		58
	No of members of member primary coops	11,599		37,316
	No of members' HH	57,996		185,718
2	Capital	Birr 140,000.00		Birr 58,892,634.00
3	Profit from transaction (starting from 2001)			
	2001		282,367.66	
	2002		542,018.40	
	2003		558,034.00	
	2004		708,355.00	
	2005		882,055.00	
	2006		3,635,585.00	
	2007		3,572,795.00	

	2008		10,247,456.00	
	2009		7,740,456.00	
	2010		10,249,583.00	
	2011		9,240,218.00	
	2012		22,498,906.87	
	2013		17,034,509.49	
	2014		19,642,349.68	
	2015			22,636,466.52

Source: BechoWeliso Farmers' Cooperative union, 2015

Along with the growth of the cooperative union, came the need for increased role of higher level administrative (governing) organ and the management, which in turn necessitated the need for increased resources in terms of human resources, finance, materials and others.

### **3.3. Analysis of data collected through interview of sampled respondents**

Data were collected through interview and FGD. Accordingly, 34 sampled respondents [9 GA members, 4 BOD members, 16 employees of the coop union (8 managerial staff and 8 non-managerial staff) and 5 staff from the organizing and regulatory agency (OCPA)], were interviewed to get their opinion on questions related to governance, management and other related issues to assess their role to influence managerial effectiveness of their coop union. Moreover, focus group discussions were made with three different groups, viz., first group having 6 participants (2 GA members and 4 BOD members) selected from sampled internal governance organs; second group consisting of 6 participants selected from sampled management team and the third group comprises five sampled OCPA workers. Secondary sources were also utilized to get supporting information required for this study.

The whole effort was to assess factors affecting managerial effectiveness in the cooperative union understudy. To this effect data collection tools mentioned above were designed in a way that enables to dig the relevant data for the study from targeted data sources.

Targeted data sources were grouped in to five, viz. GA members, BOD members, managerial and non-managerial staffs of the coop union, and employees of OCPA. Separate interview questions were prepared for each category as appropriate and finally FGDs were conducted with respondents selected from sampled interviewee's. Data obtained from secondary sources were also utilized. Data collected from these different sources were analyzed accordingly by way of summarization, discussion and interpretation.

### **3.3.1. Summary of demographic profiles of respondents**

Tables 2 & 3 summarized demographic profiles of the respondents, i.e. distribution of respondents in sex, age, educational and marital status as well as their services year in their respective organizations. In line with this, the samples from GA, BOD members and non-managerial staff included both sex. Moreover, sampled respondent from the managerial staff of the coop union and employees of OCPA are all males as it was intentionally designed to include those who have served at least three years and above in the sample in their respective organization to get better picture of the organization understudy from their experience.

The age group on the other hand shows that, except for non-managerial staff of the coop union, respondents sampled from GA members, BOD members, managerial staff and employees of OCPA all lie within the age group of above 31. This shows that all samples taken from GA, BOD, and managerial staff of the coop union are all at the age of maturity where they can feel more responsible to properly play the roles expected of them with the sense of accountability. Moreover, more than 83% of the respondents are married showing that they have been exercising the role of leadership and management at least at family level and in the social relations they are taking part.

The educational profile of respondents indicate that five of the respondents sampled from GA members lie within the educational category of grade 1-8, three respondents within the educational category of grade 9-10 and the remaining one is in grade 9-12 category. Likewise, the educational status of respondents sampled from BOD members also show that two of them

attended only up to junior secondary school (grade 1-8) while the remaining two BOD respondent's attended up to high school ( grade 9-12).

The educational profile of sampled managerial and non-managerial staff of the coop union depicts that six are first degree holders and two are postgraduate for managerial staff, and six of sampled non-managerial staff of the coop union are first degree holders and the remaining two are diploma holders.

From the educational profile of respondents, it can be seen that those with lower educational background are leading (designing strategies and policies and giving directions to) those with better profile in terms of educational qualification as majority (more than 83%) of sampled managerial and non-managerial staff are holders of first degree and above.

Table2: Respondents profile: Sampled from GA & BOD of the coop union

Respondent category	Total	Sex		Age				Marital status				Educational status				Service year in the coop union				
		male	Female	18-31	32-45	46-60	above 60	Single	married	Divorced	widow	Gr 1-8	High school		certif	Diploma	< 1 year	1-3years	(3+)-5	> 5 years
													Gra 9-10	Gra 9-12						
GA	9	7	2	-	3	5	1	-	6	2	-	5	3	1	-	-	-	3	4	2
BOD	4	4	-	-	3	1	-	-	3	-	1	2	1	1	-	-	-	1	1	2

Source: Summarized and compiled from data collected from GA members

Table 3: Respondents profile: Sampled from employees (managerial & non-managerial staff) and OCPA

Respondents category	Total	Sex		Age				Marital status				Educational status				Service year in the coop union				
		male	Female	18-31	32-45	46-60	60	Single	married	ed	widow	ate	a	First degree	graduat	e	year	3years	(3+)-5	> 5 years
Managerial staff of the coop	8	8	-	1	6	1	-	1	7	-	-	-	-	7	1	-	1	2	5	
Non-managerial staff	8	6	2	5	2	1	-	2	5	-	1	-	2	6	-	1	5	2	-	
OCPA employees	5	5	-	-	2	3	-	-	4	-	1	-	-	2	3	-	1	2	2	

Source: Summarized and compiled from data collected from GA members

### 3.3.2. Analysis of data related to governance/leadership



### **3.3.2.1. Objectives of the coop union**

Objectives are the ends towards which all policy and executive organs strive. The internal governing organs (GAs and BODs), managerial and non-managerial staff and members, thus need to have adequate knowledge (understanding) of the objectives of the coop union so that each can play his/her role effectively. The responses of sampled respondents from different respondent category (viz. GA, BOD, managerial and non-managerial staff of the coop union) as well as the regulating organ represent the understanding of sampled respondents about what objectives the coop union is pursuing to achieve. The objectives of the coop union as stated in its byelaw thus include: supplying/distributing agricultural inputs timely and adequately; improving members' income by way of adding value to their products; creating/facilitating better market for members' produce; promoting saving habit among its members and strengthening members' capacity through education and training.

The analysis of data show that sampled respondents from the different categories have understanding of objectives of the coop union but in varying degree as shown in table 4 below. The reason for such significant variation in understanding of the objectives of the coop union, as raised by majority of sampled GA & BOD members, are the difference in levels of education and exposure, the preoccupation of GA and BOD members with their commitment to support their families livelihoods and other overlapping social responsibilities. These governance organs (GA & BOD), being charged with key roles of giving strategic direction and undertaking of management oversight while being challenged by several limitations, inevitably fall short of the capacity and competence to discharge their duties and responsibilities effectively. This situation in turn may oblige these governing organs to be dictated by the management team.

Even then, when the stated objectives of the coop union is seen from the dual nature perspective of coops, it seems that only the economic aspect of the coop was taken into account while designing the objectives of the coop union. This situation may have undermining effect on the dual nature that the coop union shares from peculiar features of cooperatives, meaning that the coop union, like the conventional IOF, may go for economic efficiency alone overlooking the social aspect. The situation therefore may require the coop union to revise its objectives to maintain its dual nature and escape from isomorphism.

Table 4: Objectives of the coop union

No	Responses as to what the objectives of the coop union are	No of respondents from each category			
		GA	BOD	Managers	Total
1	To pool resources to address the problems which are beyond the capacity of individual member primary coops such as agricultural produce marketing, supply of agricultural inputs like fertilizer and improved seeds	1	1	1	3
2	To increase members income dividend payment	-	-	-	-
3	To get credit facilities for buying agricultural products from individual members and provision of consumer goods;	2	-	-	2
4	Because coop. promotion agency told as that joining the union enables us address the problems beyond member primary coops	1	1	-	2
5	To pool resources to address the problems which are beyond the capacity of individual member primary coops such as agricultural produce marketing, supply of agricultural inputs like fertilizer and improved seeds, and to increase members income from dividend payment,	5	2	7	13
	<b>Total</b>	<b>9</b>	<b>4</b>	<b>8</b>	<b>21</b>

Source: Summarized and compiled from data collected from GA members

### 3.3.2.2. Organs involved in the governance framework of the coop union

Governance structure specifies the distribution of rights and responsibilities among the different participants (internal and external). BankoCntral Do Brasil (ibid. 19) found that governance in cooperatives is affected by both internal and external factors. The external governance aspect comprises the institutions and organizations external to the coop union having significant influence on its governance, namely rules and regulations governing the cooperative sector, government, support institutions and other stakeholders that can influence the governance of the coop union. The internal governance aspect on the other hand includes the internal rules and institutions, organizational structure and culture, policies and procedures along with the organs that are responsible for their development and implementation like the GA and BOD members and the managerial and non-managerial staff of the coop union.

In fact, Cooperative Proclamation No 147/98 and Cooperative Development Directive developed based on this proclamation specifically indicated the external and internal organs having parts to play in the governance framework of the coop union, viz., external governance organs: the government being charged with the responsibilities of preparing and enforcing the

implementation of legislations appropriate to the context of coops and amending the same when deemed necessary; establishment of institutions responsible for organization/promotion, capacity building and supervision/regulation of coops; provision of frameworks for internal governance (governing organs like GA and BOD along with their responsibility to develop and implement the internal rules, byelaws, policies and procedures of the coop).

Policy and executing organs of the coop union thus need to have adequate knowledge of partakers in its governance framework as this enables them to know the duties, responsibilities and accountabilities of each and act accordingly.

Opinions of GA, BOD and managerial staff summarized in table 5 in relation to organs involved in governance framework of the coop union revealed existence of significant variation in understanding of organs involved in the governance framework of the coop union within and among the sampled respondents from the different categories of targeted data sources. Accordingly, only three of the respondents (sampled from managerial team) indicated internal & external organs having a part to play in the governance framework of the coop union. According to them, GA, BOD and employees represent internal governing organs while government, and support institutions represent external organs having role to play in governance of the coop union. This situation may have implication on role identification of governing organs by GAs and BODs and may lead to confusing roles of external governance organ (legislature, regulatory & other stakeholders like Wereda Administration) with the internal organs' governance roles.

Such gaps in knowledge of organs involved in the governance framework of the coop union coupled with their little/no awareness of their roles may consequently cause the danger where some stakeholders give up their roles to others (e.g. where BODs give up their roles in most cases to OCPA and Wereda Administrators and in some cases to those managers they are supposed to direct and supervise.

Table 5: Summary of responses on organs involved in the governance framework of the coop union

No	Organs involved in the governance framework of the coop union	No of respondents from each category			Total
		GA	BOD	Managers	
1	GA & BOD	3	2	2	7
2	Govt., GA and BOD	—	2	1	3
3	GA, BOD, employees, govt. & support	—	—	3	3

	institutions				
4	Govt. and Management	3	—	1	<b>4</b>
5	Management team of the coop union	2	—	1	<b>3</b>
6	NR	1	—	—	<b>1</b>
	<b>Total</b>	<b>9</b>	<b>4</b>	<b>8</b>	<b>21</b>

Source: Summarized and compiled from data collected from GA members

### 3.3.2.3. GA members' representation

The tradition of democratic member participation is the best-known feature of the co-operative way of doing business, and is among the salient features characterizing a co-operative in contrast to investor-owned businesses. In other words, co-operatives are sites for learning how to participate in democratic decision-making, and, as such, they generate a public good which exceeds their economic imperative. Thus, democratic participation in co-operatives supports both better business decisions and stronger communities.

Democratic members' control at higher level cooperatives is ensured when members (member coops) have sufficiently been represented in GA and BOD members. Representativeness in higher level cooperatives, like cooperative unions, can be ensured in a democratic way. To avoid biases that may come in decision making process, member cooperatives are made to have proportional number of representatives recruited in a democratic way with full consent of members. Moreover, GA for higher level coops is the body consisting of representatives of member primary cooperatives on whom the ultimate power to look after the interests of members is vested. The GA is responsible for the strategic directions and goals set towards meeting the common needs of the entire members. In view of this, data collected from sampled 9 GA members on how the 174 GA members of the coop union were selected were summarized and analyzed. Accordingly, seven out of nine respondents said that it is based on certain criteria such as being committee member of member primary coops, where chairperson, secretary and treasurer, by default, become GA members. Here it is assumed that these representatives are elected within their respective primary coops based on their relative educational level, ethical and moral behaviors and experiences, and hence assumed can represent the coop they manage at the coop union level without requiring the consent of members. Other points raised by the rest two respondents are supportive, not substitutive to being committee membership of member primary coops.

The fact that this approach lack members' consent support the findings of many writers like Benner & Banko Central Do Brasil (ibid., 21), i.e. overlooking members' consent is the reflection of domination of member of primary coop by their elected management committee. In other words, this situation can be the reflection of less regard to democratic members' participation in the affairs of their coop union.

Cooperatives being democratic organizations, need to ensure representativeness so as to be able to act to the best interest of members by aligning every business activity of the coop union with members' interest. If members of every member primary cooperative are not properly and adequately represented, it is likely that various problems challenging effectiveness of the governance of the coop union will prevail. Banko Central Do Brasil, indicated that in the absence of representativeness and active members' participation, hitching effect and free riding problems as well as the situation where elites (self-interested members) can take the advantage of maximizing their gain at the expense of other members will prevail. This situation, if not timely addressed, can erode members' trust, confidence and loyalty and ultimately result in stunted member participation as Benner explained in Novkovic (ibid, 21). Ensuring representativeness of GA members is therefore crucial for winning member trust and loyalty as well as for establishing balance in the governance system in cooperatives.

#### **3.3.2.4. Appointment of BODs and their leadership capacity**

The BOD is the body elected (appointed) to carry out the activities entrusted to them by owner-members or their representatives (GA members) such as provision of strategic direction and supervising (controlling) management on their behalf. In principle, the BOD is accountable to GA comprising either the entire members or their representatives. To effectively achieve the more complex objectives of their coop, members (through GA) need to appoint competent leaders (BOD members) with their full consent so that the BODs can play their leading and oversight role with a powerful motive. Competency of leaders can be assessed based on qualities like, knowledge of the coop business along with its challenges, strategic thinking, HRM and some other related issues. Ideally, cooperatives secure competent leaders (in this case BODs) using various strategies among which is putting in place prudent nomination and appointment process. Competency of BODs of the coop union was assessed from the data collected on their educational background, the way they were appointed, their knowledge of coop business, time

they sacrifice to undertake their leadership role at the coop union, extent to which accountability is enforced, and their commitment to contribute towards achievement of the goal of the coop union. In light of this, data collected from the sampled respondents in relation to appointment and capabilities of BOD of the coop union are summarized in table 6 below. As can be seen from the table, eleven respondents said that BODs of the coop union are appointed in line with the OCPA and Wereda administration recommendation; eight said it is appointed by GA of the coop union based on the candidates' educational level, previous performance in their respective primary coops and their ethical behavior; four said it is appointed by the recommendation of management of the coop union, and yet the remaining three respondents were of the opinion that the appointment of BODs of the coop union is significantly influenced by the elite character of candidates.

As pointed out by Sitaram (2009), BODs of a cooperative society establish and own the coop identity (vision, mission and values), review and approve policies & procedures. This indeed requires the competence to understand and challenge assumptions, understand critical success factors, ensure that the plan is realistic (achievable); ensure due diligence, know how to measure success factors and performance of the management. The common barriers to governance in cooperatives according to the authors are incompetent leadership, representational mindset, lack of sustained commitment to vision, mission and values, unclear definition of roles, duties and responsibilities and lack of clarity between the roles of BOD and management, imbalance of skills (e.g. between the BOD & management), poor information management (too much or too low), burnout of board members and lack of succession plan.

In view of this, responses of sampled respondents from different categories have been summarized as in table 6 below. The major factors inhibiting effective performance of BODs of the coop union, as derived from the weight of responses given by sampled respondents, include: less time & attention given by BODs because of their preoccupation with their livelihood concern to support their families' needs as the limited allowances the coop union pays them is not sufficient to compensate for the time they sacrifice; lack of leadership skills and professional knowledge such as knowledge of cooperative business management and marketing, and weak enforcement of accountability. The major skill gaps of BOD of the coop union, as emphasized by majority of respondents (twenty four out of twenty six) revolves mainly around lack of

leadership skill& lack of knowledge of cooperative business and marketing.The relatively low educational profile of sampled GA and BOD members given in table 2 &3 above justifies lack of professional leadership skills of these organs.

The implication of all the above gaps is that decisions are supported by the BODs without due consideration to the consequence of those decisions on members interests (in situations where decisions are dictated by the external body or management of the coop union because of lack of autonomy by BODs or lack of ability to analyze and challenge the decisions proposed by management).

The respondents’ opinion on how to improve the performance of the BODs of the coop union revolves around the usual practice such as training and strong support of professional managers that could not bring the required level of change in leadership/governance behavior of BODs of this coop union so far. Limitation in competence (capacity/knowledge and skill gaps) of BODs is thus one of the key challenges of governance in the coop union understudy.

From all the above, one can derive that the GAs and BODs of the coop union, being the governing organs charged with role of providing strategic direction to and overseeing management’s performance, has very limited capacity to give the right strategic direction and make the coop union move with the right pace and on the right track. This capacity limitation is the combined effect of lack of professional as well as leadership skills & experiences coupled with the livelihood concerns BODs that obliges them to commit less time to their governance work of the coop union while the interference of external organs denying decision making autonomy of BODs is also of equal importance.

Table 6: Responses of sampled GA, BOD, mgt. & OCPA workers on leadership capacity of BODs

No	Questions and responses given	No of respondents from each category				Total
		GA	BOD	Mgt.	OCPA workers	
1	Who appoint the BODs?					
1.1	GA based on their education, previous performance in the primary coop and their ethical behavior	3	2	2	1	<b>8</b>
1.2	GA based on the elite character of candidate board members’	1	-	1	1	<b>3</b>
1.3	Based on the recommendation OCPA &Wereda Administration	4	1	3	3	<b>11</b>
1.4	Based on the recommendation of the management of the coop union (particularly by the General Manager)	1	1	2	-	<b>4</b>

	<b>Total</b>	<b>9</b>	<b>4</b>	<b>8</b>	<b>5</b>	<b>26</b>
2	Factors inhibiting BODs from effectively discharging their responsibilities					
2.1	Less time & attention given by BODs as they are preoccupied with their livelihood concern to support their families' as allowances the union pays them is not sufficient to compensate for the time they sacrifice. Their biweekly meeting is thus little more than physical presence.	1	2	2	-	5
2.2	Lack of professional as well as leadership skills & experiences	4	-	3	-	7
2.3	Weak enforcement of accountability	-	-	-	-	-
2.4	I don't know	2	-	-	-	2
2.5	Combination of factors mentioned under 3.1 & 3.2	2	2	-	2	6
2.6	Combination of factors mentioned under 3.1, 3.2 & 3.3	-	-	3	3	6
	<b>Total</b>	<b>9</b>	<b>4</b>	<b>8</b>	<b>5</b>	<b>26</b>
3	The knowledge and skills gaps of the BOD to effectively undertake their governance activities					
3.1	Leadership skills	4	-	5	-	9
3.2	Coop business management & marketing	1	1	-	-	2
3.3	Combination of factors mentioned under 4.1 & 4.2	2	3	3	5	13
3.4	I don't know	2	-	-	-	2
	<b>Total</b>	<b>9</b>	<b>4</b>	<b>8</b>	<b>5</b>	<b>26</b>
<b>4</b>	<b>How the skill gaps of the BOD can be addressed?</b>					
4.1	By giving training & exposure visits	2	-	2	-	4
4.2	By using support of loyal, selfless and committed managers	3	3	-	-	6
4.3	Technical support from OCPA	-	-	-	-	-
4.4	Coop management training & research institute (Coops knowledge center)	-	-	-	2	2
5.5	Combination of factors mentioned under 5.1 & 5.2	1	-	3	-	4
5.6	Combination of factors mentioned under 5.2 & 5.3	3	-	-	-	3
5.7	Combination of factors mentioned under 5.1-5.4	-	1	3	3	7
	<b>Total</b>	<b>9</b>	<b>4</b>	<b>8</b>	<b>5</b>	<b>26</b>

Source: Summarized and compiled from data collected from GA members

The work of many scholars support these findings. Scholars, like Hussi et al. (1993), Bello (2005), Spielman (2008), Bezabeh (2009), Sittaram (2009) and some others have shown in their work that lack of good governance (incompetency of leaders) is the major challenge prevailing in cooperatives. The literatures referred indicated that BODs perform their leadership and oversight roles based on the advices they get from managers they supervise, hence likely dictated by them (managers).

The basic argument that should be raised here is thus as far as the prevalence of poor/weak governance (having implication on managerial effectiveness) has been and still being repeatedly raised as findings by scholars, and as far as the recommendations given by these scholars to address governance problems of coops to enhance their performance and competitiveness could



not bring the required level of change, particularly in context of developing countries like ours (as discussed in the literature review), it is wise to think of another alternative to enhance managerial effectiveness of coop managers while maintaining coop identity, i.e. another model of managerial effectiveness should be looked into (which inspires and empowers the coop union's managers, capacitates them morally and technically and with adequate decision authority on one side and put in place strong board of directors whose composition include qualified and enlightened individuals brought up from the members' where the BOD reports, in addition to the GA, to the regulatory organ in place. The new system should be one that can bind all stakeholders (including organ mandated to regulate the formation and functioning of coops) not to go out of the boundary of mandates given to them by the law.

### **3.3.2.5. Awareness of governing organs of their role, duties and responsibilities**

Governing organs of a cooperative (mainly GA and BOD) need to have good understanding of their roles if they are to ensure effectiveness of their coop. This is because the level of awareness or knowledge of GAs and BOD members of their role can have significant effect on the extent to which they discharge their governance role.

In light of this, opinions of sampled respondents from GA and BOD of the coop union were collected and analyzed against those listed in the bylaw of the coop union.

#### **a) Awareness of GA members of their role, duties and responsibilities**

GA members' awareness of their roles, duties and responsibilities is among the key factors determining their performance in governing the coop union. In view of this, data collected both from primary and secondary sources were analyzed. According to article 18 of the bylaw of the coop union, the GA of the coop union is the ultimate decision making body charged with the power of resolving conflicts that may arise among BOD members and between BOD and management; approve guidelines for employment, succession and pension of employees; approve investments proposals in (purchase of shares from) other coops or share companies, and other activities as deemed necessary. Moreover, data collected from sampled GA members' on their awareness about their roles was assessed in the light of secondary data obtained from the coop bylaw as well as coop business philosophy. The analysis revealed that three out of nine respondents said that the governance role of GA of the coop union is approval and

implementation control of plans of BOD; three respondents explained the role of GA as dealing mainly with control or supervisory aspect. The responses of the other two of the sampled GA members are relatively comprehensive, though not exhaustive, as they mentioned GAs role to included, besides plan approval, the other major role of GA such as membership issues and provision of direction to BODs on strategic issues. However, the response of the remaining one respondent from GA revealed that he has no knowledge of the governance role of GA of the coop union as he said the GAs' role to be communicating the direction given from the general manager of the coop union to their respective member primary coops.

Though it lacks comprehensiveness, the responses from sampled GA members show that majority of GA members have understanding only of some of their roles. Besides, though it seems insignificant in number, one of the sampled GA members being ignorant of his role can negatively affect the performance of the coop union, especially if he has influencing elite character.

From this analysis, one can derive two very significant gaps in relation to the governance role of GA, i.e. first the governance roles of the GA stated in the coop union's byelaw are very shallow and some are irrelevant as they are the roles of BODs, and second GA members have limited and non-uniform understanding of their roles. This situation can have implications on the strategic decisions as a body.

With respect to awareness of GA members of their duties and responsibilities, though majority of sampled GA members (eight out of nine) said that there is clearly defined duties and responsibilities of GA, five respondents indicated that they are not well aware of their duties and responsibilities (which include regularly attending and making active participation in GA meetings, critically looking into the performance of BOD, evaluating the alignment of the businesses of the coop union with the members' interests, ensuring existence of standards of accountability in place, ensuring level of independence of the BOD and some other higher level decisions). The reasons for the occurrence of such gaps in the awareness of GA of their role, according to sampled respondents are, the difference in the level of understanding which emanates from low level of educational background, less attention of GA member, lack of knowledge of its impact on the effectiveness of the coop union and inadequate communication from BOD and management.

On the other hand, three of the eight who argue that GA members are aware of their duties and responsibilities, raised the following evidences to support their responses. These include regular attendance of GA meeting of GA members and that they work to strengthen members' participation. However, majority of sampled GA members confessed that there was no active participation and attendance of GA members.

This analysis revealed that very significant number of sampled GA respondents lack awareness of their roles, duties and responsibilities for the reasons mentioned earlier. The implication is that majority of GA members don't know what is expected of them and hence move haphazardly with little/no contribution towards effectiveness of the coop union, which in turn is the effect of not being achieving the required level of intellectuality and profession.

#### **b) Awareness of BOD members of their governance roles duties & responsibilities**

According to Sitaram (2009), cooperative boards are required to effectively play their four key roles viz., leadership, stewardship, monitoring and reporting. In line with these leadership role, cooperative boards are required to set coop's long term strategic vision; establish polices and guidelines so that the coop operates within clearly defined direction. The BODs are also expected to undertake fiduciary control which requires them to develop trust and confidence among members by ensuring existence of effective internal control system; understanding financial statements; approving annual operating budgets; maintaining adequate insurance and ensuring conduct of financial audit on annual basis. Moreover, they are required to effectively play their role of management oversight/control, i.e. ensuring whether the five management functions are properly undertaken, monitoring whether the three legged core businesses activities comprising of production, marketing and financial measurements are in alignment with the interests of members' and are in proper pace and direction. Further the BODs need to ensure their representation role by providing the whole members (not selected groups) with adequate information, i.e. adequately communicating members through reports and other means.

In line with this, the governance role of the BODs of the coop union and their understanding of such roles have been assessed. Accordingly, BODs role stated in the byelaw of the coop union details the roles of its BOD as giving strategic direction during preparation of plans and budgets

(leadership); mobilizing finance for expansion of business of the coop union from members and lenders (creation of access to resources), give decisions on dividend payment; hires and if necessary fires managers, resolves conflicts between the coop union and members, lays general framework for expense management and record keeping (stewardship); ensuring implementation of the coop laws and regulations, the coop union's bylaw and internal regulations and directives as well as plans (monitoring); reporting performance to GA (reporting); and performs some other activities given by GA that can fall in any of the four categories.

However, the duties and responsibilities of BOD have not been properly defined in the bylaw of the coop union. According to Baarda (2003) and Sitaram (2009), the coops' BODs duties may include duty of care-which entails being diligent and attentive and make informed & active participation in supervising the management, understand financial documents and ensuring adequacy of insurance; duty of loyalty-which involves acting honestly in good faith and making decisions in best interest of members, avoiding conflicts interests, and duty of obedience- which is concerned with boards duty to comply with the requirements of regulatory organ (i.e. rules and regulations) as well as with coop's own rules. Further, coop boards need to effectively discharge their responsibilities which may come under three major categories, viz.: first one is the responsibility to *act as trustee on behalf of members* by evaluating goal achievement (meeting members' needs), monitoring the financial status of the coop, ensuring compliance with rules and regulations; the second is the responsibility to *ensure sound management of the coop* by hiring competent personnel working on their continuous development and monitoring management's performance based on key indicators such as operational and standing plans (policies and procedures). The third responsibility of coop BODs is *ensuring continuity of the coop* by planning for its future, i.e. by establishing long range plans.

In view of this, the data collected from sampled BOD members on their understandings of their roles revealed that all the four sampled BOD respondents understand the roles of BODs to be evaluating the performance of managers, making key decisions like investment, hiring and firing GM, and reporting the results to GA. This indeed is only two of the four important roles of BODs. The understanding that all sampled BOD members have in common is that BODs duty is supervising management's performance and reporting the status of the organization to members. This shows that the BODs are considering only two of their four roles, (i.e. monitoring and

reporting) and only one of their three duties, i.e., *duty of care* so far as they made no mention about their two remaining duties (*viz.* duties of *loyalty* and *obedience*). Moreover, three of the four sampled BOD members believe that the responsibilities of the BOD to be ensuring that the management has accomplished the planned activities entrusted to it. The chairperson of BOD further underlined that the BOD regularly check whether resource utilization and expense management is according to the guideline. This shows that the BODs are focusing on their responsibilities of acting as trustee while overlooking other responsibilities, such ensuring sound management and continuity of the coop.

The major reasons for the limited awareness of their roles, duties and responsibilities, as raised by respondents, include inadequate awareness creation intervention made by the appropriate organ (OCPA), less attention & weak commitment of BODs, weak communication system of the coop union and inadequate knowledge to understand technical terms.

However, the challenge peculiar to the coop union understudy is that, regardless of the indispensable roles of the coop for members and in local development endeavors, the board of directors can't be either independent or capable in real sense to give the leadership that enables the coop union achieve its mission. The educational profile of the BODs of the coop union is the evidence that depicts that the coop union does not have professional BODs or even those with intellectual level of educational background, leave alone profession. It thus goes without saying that the BODs of the coop union lack the required knowledge, skill and experience required from a professional director and obliged to entirely depend on the advices of managers who have intellectual level of educational background. This undoubtedly indicates that the board of directors of the coop union are not independent even in strategic and oversight concerns, i.e. the oversight activities of the coop union's board of directors may lack genuineness as managers are overseen based on the advices and tools they provide to BODs. The coop union's board are thus not '*challenger board*', i.e. not highly involved in providing advice and coaching as well as monitoring and controlling of the performance of managers. They are rather a '*rubberstamp type board*' that is neither strong, capable advisor and coach, nor energetic watchdog who focus on small and even trivial issues leaving major decisions to management. This is because the directors lack intellectual and experiential attributes necessary to provide modern and effective leadership. Such board of directors, as Hoel (n.d.:6-8) stated, are likely to go along with what the

management wants and decides. They are thus prone to believe that the coop union (organization) under consideration is doing well, no matter what the real situation may be.

### **c) Governance philosophy of GAs and BODS**

Governing body of an organization, under normal condition, works to establish and realize organizational philosophy. Organizational philosophy according to Marcinkevicius, Mikalauskiene and Peleckis (2010), determines exactly what the organization wants to achieve, what is real, unique to it, at the same time naming values that need to be used, wanting to implement this philosophy. The philosophy of an organization comprises of rules, values and principles, to be complied with in an effort to help an organization achieve its set tasks, as above. They added that in reference to the importance of the image of an organization, it is claimed that organizational philosophy and the spirit of initiative dominating in it has a much bigger influence on seeking results than technical or economic resources, organizational structures, or time strategies (as image comprises of the whole of the outer and inner organizational audience's opinions and leaders of the modern company clearly see that a favorable image of the company is the biggest value).

Likewise, the understanding of GAs and BODs were assessed based on the information collected from thirteen sampled GA and BOD members. Accordingly only five out of thirteen respondents (two from GA and three from BOD) indicated that the organizational/governance philosophy of the coop union is maximizing members' benefits (financial and non-financial) by expanding services, which is the right philosophy as per the coop identity. Of the remaining nine respondents, seven respondents (six from GA and one from BODs) are in favor of maximization of ROI (i.e. profit)-which is purely the governance philosophy of IOF. The remaining one respondent from GA understand the organizational philosophy of the coop union to be stabilizing the market through supply of agricultural products to the market and provision of consumer goods to members and the community it operates in. Indeed, the latter two responses given by eight respondents (seven from GAs and one from BODs) show that they have the understanding of the mission and objective (philosophy) of their cooperative union as stated in their coop byelaw. However, the mission of the coop union by itself was designed in a way skewed towards one aspect of the coop, i.e. the economic aspect, overlooking the other aspect, i.e. the social

aspect. The business philosophy of the coop union is thus not properly defined and understood by the concerned policy and executive organs.

### **3.3.2.6. How the BODs oversee the performance of managers**

Overseeing the performance of managerial managers is one of the four basic roles (i.e. the controlling/monitoring role) of the BOD. The summary of data collected from sampled BOD members show that all four sampled BOD respondents indicated that the BOD undertakes its oversight work by way of evaluating the performance of managerial staff based on management reports presented on weekly standing BOD committee meeting and monthly BOD meeting, in reference to plans approved by BODs.

From the responses of the sampled BOD members, it can be seen that BOD members are undertaking part of their oversight work such as plan approval and evaluation of achievement. Management's performance on the remaining three management functions (viz. organizing/coordinating, staffing and leading) were not given attention and this could be the reason why missing link was discovered in the organizational structure of the coop union. Having such gaps, it is hardly that proper oversight is undertaken for better result. The reason behind, as discovered earlier, could be the fact that BODs are in server lack of professional governance/leadership skills and hence they undoubtedly lack the competence/capacity to evaluate the management team having relatively better professional knowledge and competence. The BODs of the coop union are thus no more than rubberstamp type board.

The point of argument one can raise here is that as far as ensuring effectiveness and sustainability of the coop union depends more on the commitment, integrity, selflessness and professional competence of managers rather than BODs, particularly in the context of our country, it will be inevitable to think of short and long term solution options to enhance managerial effectiveness of the coop union.

### **3.3.2.7. System/standards of accountability**

Existence of effective system of accountability is of paramount importance for effectiveness of organizations. Because, it alerts and motivates all concerned organs to properly play their role

towards achievement of set ends. In view of this assessment has been made to see availability of practice of accountability and organs responsible for the enforcement of same based on data collected from sampled respondents from GA, BOD and managerial staff. Accordingly nine out of thirteen respondents (two from BOD & seven from mgt. team) said that the standards of accountability in place are documents of plans, policies and procedures. Three of the seven responded managerial staff, on the other hand indicated that there is a code of conduct for hired staff (employees) accountability only. Six of the sampled GA members, on the other hand indicated that the GA members undertake evaluation of BOD's performance on its meetings made twice a year and two of the remaining three sampled GA members said that they use implicit mechanisms the BOD decides at spot to enforce system of accountability based on its evaluation results. The remaining one sampled GA member however, deviate in his response from the rest in that his response shows that GAs don't enforce system of accountability as they tolerate under or low performance. Yet, the remaining two of sampled BOD members indicated that they don't know whether the coop union has standards of accountability or not. Moreover, established standard to guide enforcement accountability was not found during the observation of various documents used by BODs to undertake their governance activities. This shows that there is no established standard to enforce accountability in the coop union particularly higher levels (BODs and top management).

### **3.3.2.8. Organizational structure**

Organizational structure, (as found by Tran and Tian, *ibid*, 25), affects managerial effectiveness of the organizations through differentiation, integration and alignment. The summarized responses of sampled respondents depicted that, five respondents (two BOD & three management team members) said that the existing organizational structure of the coop union contributes to managerial effectiveness of the coop union in that it established effective coordination among organs, proper & smooth relationship between task/responsibilities, authority and accountability. The other twelve sampled respondents (two BODs, five management team members and five OCPA workers), in addition to these, raised other justifications that the organizational structure of the coop union enabled to accommodate the required competencies and also provides rooms for flexibility to change in the environment.

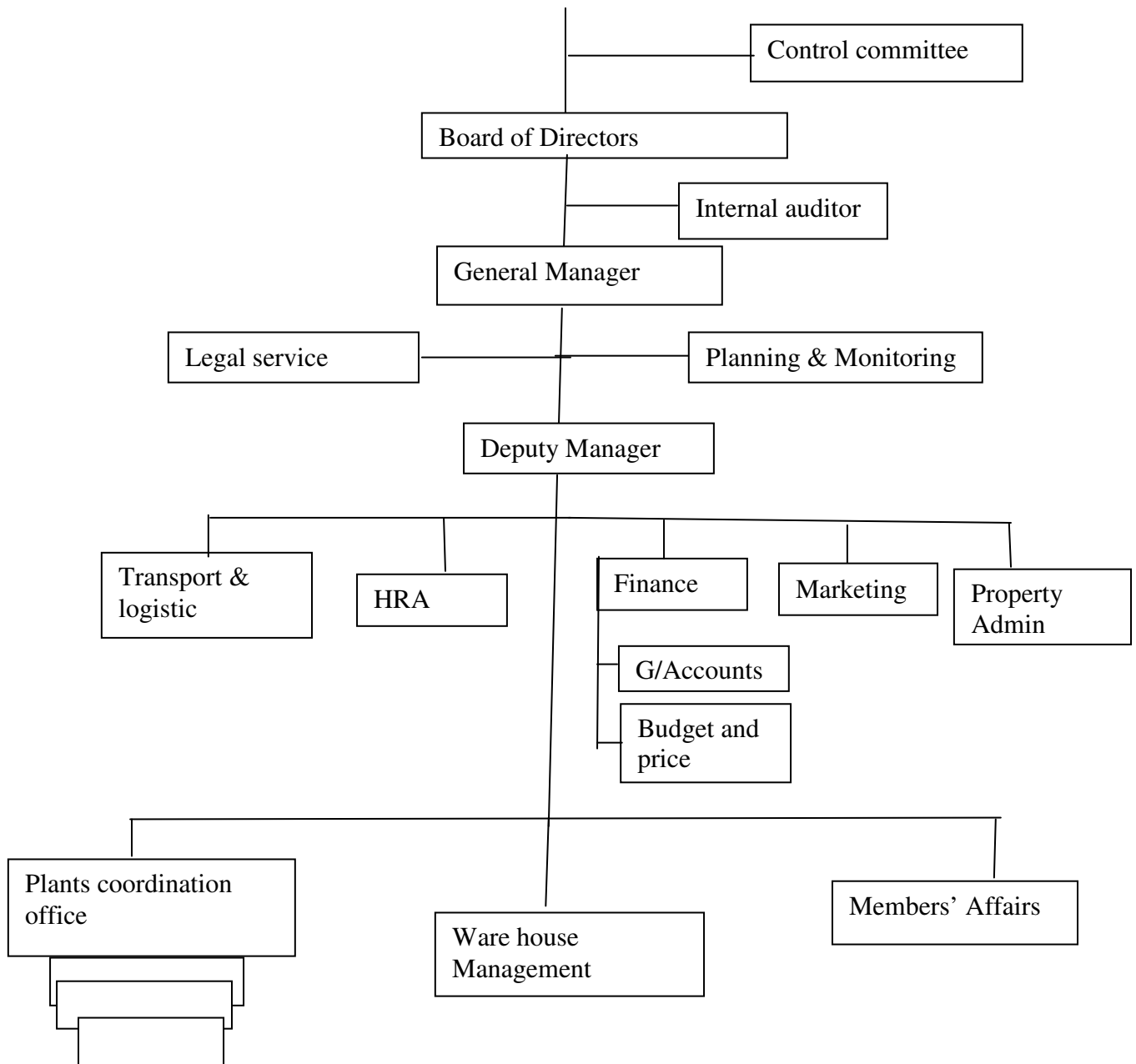


These responses, however, contradict with what have been discussed earlier. That is, *first*, the existing organizational structure did not ensure effective communication system reflected in lack of awareness of their duties, responsibilities and accountabilities; *second*, the duties and responsibilities of GA and BOD members have not been defined well and put to their notice; *third*, the existing structure did not enable the coop union to have the required level of competence esp. primarily at BOD and also at management level as many of the managerial staff did not have appropriate background of educational qualification (profession); *fourth* the existing organizational structure did not ensure alignment of organizational purposes with organizational resources reflected in that some of the business units of the coop union have little or no alignment with members' interests, i.e. organizational purpose, *fifth*, as regards to flexibility, the existing organizational structure is a traditional triangular shaped hierarchical type which has little or no room for flexibility; *sixth*, lack of shared view of cooperative values and principles by majority of sampled respondents (as discussed under sub-topic 3.3.2.8) is indicators of the fact that the existing organizational structure did not adequately provide for existence of effective communication system as there is no organ specifically dedicated to and accountable for communication and training.

From the above, it can be seen that the organizational structure of the coop union is not based on properly designed differentiation and integration as some important organs dealing with system of communication as well as education and training are missing.

### **Organizational structure of the coop union**

General Assembly
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Diag. 1: Organizational structure of the coop union

### 3.3.2.9. Organizational Culture

Organizational culture is among variables of consideration when dealing with managerial effectiveness of the coop union under study. It has direct relationship with organizational effectiveness as remarked by writers like Denison.

The analysis of data collected from sampled respondents depicted that all sampled GA and BOD members responded that they are not aware of how culture affects managerial effectiveness. However, five of the eight sampled managerial staff said that organizational culture affects the effectiveness of the coop union in that members' perceive it as not-for-profit organization as the coop union focuses on service maximization than profit. Moreover, as discovered during this study, other than the availability of physically observable cultural elements (such as name plates, headed papers, tags on the vehicles, and some others) available in the vicinity of the coop union, the entire society of the coop union (members, GA members, BODs, management and even employees) do not have shared view of the soft aspects viz. values, principles and mission of the coop union and the relationship of these soft elements with that of physically observable cultural elements.

The analysis thus depicted that all GA & BOD members lack understanding of what organizational culture is and how it affects organizational effectiveness while the managerial team misconceived the organizational in the context of coops in that they perceived service (not profit) maximization culture of the coop union made members to consider the coop union as Not-for-profit organization. The implication is that management intends to create organizational culture that promotes profit maximization than service maximization using the capacity limitations of the founders (or their representatives) in that they are not in a position to create organizational culture that fit their specific values and beliefs.

In general, the founders themselves/their representatives (GAs and BODs) lack the understanding of what culture to inculcate throughout the community of the coop union as they lack knowledge of the impact of culture and the knowhow of how to create it.

The findings revealed that there is no shared view on values, common beliefs, principles and mission of the coop union among all stakeholders, particularly members, GA, BOD, managerial and non-managerial staff as well as regulatory organ. However, existence of well-developed shared view on the values and principles of coops is the best self-motivating and self-enforcing

tool the organizations employ. Well-developed shared view of about the values, principles and mission of the coop union is not something replaceable by competence and commitment of policy and executive organs of the coop. If these characters (commitment and competence) are not supported by stakeholders shared view of coop values, principles and mission, the coop organization/union is no more than the conventional business firms.

The question that one should however, raise here is that ‘what principles then govern and motivate these stakeholders to pay commitments towards achievement of the goal of the coop union. If they are not well aware and hence not committed to comply with the values and principles, or in other words with coop laws and mission, the coop union inevitably suffer isomorphism. The coop identity statement of ICA 95 underlined that coops must be sure whether they are following not simply the statements of cooperative principles, but also the spirit that the coop principles carry/convey.

The findings of the study in this regard thus are congruent with that of Shaw (2006) and Kuria (ibid, 22) stated below:

‘unlike the experience of the OECD countries, cooperative governance in developing countries is based on the legacy of the government control and intervention as there is implementation gap of the cooperative principles particularly members’ economic participation, democratic control and autonomy and independence; weakening the governance of coops in developing countries (Shaw 2006)’.

‘Inadequate or superficial understanding of the philosophy of cooperative enterprise among political leadership, policy makers and members are among key of challenges to effective leadership and governance in cooperatives (Kuria 2012)’.

This is because as many of internal governance organs (GA and BODs) lack competence to formulate and properly enforce implementation of strategies towards ensuring effectiveness of their coop union, and influential external organs having a stake in governance of the coop union, like OCPA and Wereda administrative organs, fail to comply with their mandate and were biasing the coop unions direction towards their interest (by interfering in the area of BOD appointment, hiring and firing of managers, investment decisions in business unit or a factory/plant

establishment, etc.), i.e. it all depends on the legacy of the regulatory and Wereda Administration.

### **3.3.2.10. Whether the coop union is on the right track to achieve its Mission**

In this regard, the opinions of sampled GA and BOD members were assessed. The summarized opinions of sampled GA respondents' on whether the coop union is achieving its mission depicted that, seven out of nine respondents said that the coop union is achieving its intended purpose. Only two respondents (one of which is BOD control committee chairperson) disagreed saying that the coop union is not properly achieving its real mission as it is not serving the intended purpose properly because of biases enforced from external organs in both designing the mission and strategy and implementation of same.

In principle, cooperatives are dedicated primarily to meeting the interests of their members in both economic and social aspect through vertical and horizontal integration. Taking into account this fact, though the coop union is growing in both volume and diversity of its businesses, however, majority are not based on the interests of its members. Several factors, as discovered during the study, attributed to the problems of managerial effectiveness in the coop union. These include lack of governance professionals as it is under the leadership of non-intellectual leaders (and hence is indirectly governed/led by the managerial team); the way the coop union designed its mission, which was skewed mainly towards economic aspect, and hence resulted in deviation from members' interests and commitment of the appropriate organ to address the problem of managerial effectiveness of the coop union understudy. This situation, if not corrected timely will end up making the coop union suffer isomorphism.

## **3.3.3. Analysis of employee related data**

### **3.3.3.1. Analysis of manager related data**

#### **a) Managerial competence**

In view of the works of Shirarzi&Morazavi, Caupin, et al. and Cumutto (ibid.,16)), assessments were made on competence of the managerial team in relation to the key roles expected of them to ensure success of cooperative union based on data collected from sampled respondents. Accordingly, three out of four sampled BOD respondents said that managers' roles are

technically preparing strategic, policy and guideline documents for BODS deliberation. But one of the four sampled BOD respondents (the chair person) understands that the roles of managers in addition to what have been mentioned by the three BOD members, are advising the BODs to make informed decision. However, no mention was made by respondents regarding the role of managers in strategy implementation, while managers of the coops play indispensable role in both strategy development (indirectly) and strategy implementation (directly).

Recruitment being one of the key means to secure competent professionals, the assessment result depicted that two of the BOD respondents hold that managers are recruited based on their educational background, skills and experiences. The remaining two BOD respondents said that managers are recruited based, in addition to the educational background and skills, on their past history of loyalty and integrity.

Assessment on the mechanisms used by BODs to capacitate and motivate managers depicted that the BODs use various incentive schemes (financial and non-financial) such as bonus, better salary & facilities, long and short term educational opportunities were used to motivate managers.

The finding reveals that BODs trust their managers to be selfless and committed to work towards the intended ends of their coop union for the reason that they lack required level of competence to provide competitive strategic direction. This shows that the coop union is based on trust model in relation to managers. There thus seems to be negligence of BODs of their roles in addition to communication gaps. Moreover, data collected from the four sampled BOD members disclosed that there is no inbuilt capacity to identify skill gaps of managers so as to devise tailored capacity building scheme.

The role of managers, hence, is exceptionally more important for cooperatives than the rubber stump type BODs as they are directly concerned with fulfillment of their managerial duties and responsibilities (strategy implementation) on the one hand and indirectly playing leadership role by supporting and guiding the BODs from strategy formulation up to decision/approval as well as enforcement for implementing decisions/strategies. From this analysis, one can derive that the process of nearly whatever being done in the coop union, from initiation to implementation (including strategies and policies) is handled by managers. What they need from BODs is only approval of their decisions.

This situation, however, if not wisely managed, can have the implication of creating high dependency of the BODs on managers (and may sometimes cause manager domination) there by resulting in the problem of managerialism in conditions where managers lack commitment sense of belongingness. Notwithstanding the need to enhance the governance capacity of the members of the BODs of the coop union, therefore, it seems logical to look into the mechanism to enhance the capacity, commitment and belongingness of managers and adequately motivate them taking into account their important roles for success of the coop union in the current competitive and dynamic local and global environment coupled with the unique nature of cooperative business, as Gregory and Simms (ibid.,19) recommended that corporate governance in African cooperatives need reform.

Other management related issues affecting managerial effectiveness of the coop union addressed during this study include principal-agent problems, managerial skills and managers' perception.

**a) Managerial skill gaps**

Skill is one of the attributes required for managerial competence and effectiveness. Skill gaps of managers is therefore another area of assessment during this study. In this regard, four of the eight sampled managerial staff stressed that technical skill gap is one of the factors affecting performance of managers and conceptual and people skills were second to the technical skill gap. Moreover, four of the five sampled OCPA workers on the other hand argued that conceptual and people skills (which are mainly required at top level) are more important in the coop union as technical skill can be enhanced through recruitment and training.

Most of this findings go with the findings of Rosaline (2013) that stressed lack of skill development training, proper coaching and providing adequate empowerment to managers lead to failure to meet the intended end in the ultra-competitive world where businesses frequently fail to develop and train the managers in the organization and hence face the challenge of losing competitive advantage. The author indicated managerial skill gaps, if fails to receive adequate attention from policy organ, can have the consequence of non-achievement of goals for the organization, frequent loss of productivity at a time when other competitors tend to clamor to improve on their productivity, development of negative cohesive culture instead of strong team

spirit and cooperation, ineffective communication, degeneration of morale and increased workplace stress.

The assessment results presented above thus depicted that managerial skill gaps did not receive adequate attention from the policy organ of the coop union as there is little or no effort to bridge the gaps because of the fact that the policy organs of the coop union lack professional competency to do so, and that of OCPA's is conditional and blanket type.

### **b) Managers' perception of ME**

The other area of focus during this assessment was the perception of managers about managerial effectiveness. In light of the works of Ozleblebici & Cetin, and Beyer et al (ibid.,18), opinions of sampled respondents from the managerial staff of the coop have been collected to see how the managers perceive managerial effectiveness in the context of the coop union and their behavior in relation to that. Accordingly, the assessment revealed that, all in common believing that managers play key role to ensure effectiveness of the coop union, four of the sampled managerial staff perceive managerial effectiveness to be achievement of plan of the coop union whatever it is, and two of sampled management team perceived that managerial effectiveness is improvement of social and economic wellbeing of members while maintaining the coop identity. However, one of the eight sampled managerial staff said that managerial effectiveness is record of high ROI (EPS) or profit of the coop union & increased income of individual members, i.e. understood it from the economic aspect only like that of IOF.

From the above analysis, it can be derived that management members lack uniformity in the way they perceive (understand) managerial effectiveness, and even some perceive managerial effectiveness in similar way as that of conventional businesses because of lack of understanding of the nature of the coop business and the principles and values governing it.

### **c) Principal-agent problems**

In light of the works of Richards, Klein and Walburger, and others cited in Ortmann and King (ibid.17), assessment has been made whether there is principal-agent problem in the coop union and its causes. Majority (three out of four) of sampled BODs stressed that dissatisfaction of BODs with the compensation the coop union provides to BODs affected their commitment to



discharge their governance role effectively in an effort to ensure managerial effectiveness of the coop union. Besides, seven of the eight sampled managerial staff indicated that dissatisfaction of BODs with the compensation the coop union provides to BODs and non-alignment of the coop businesses with the mission of the coop union are the reflections of conflicts of interests which needs to be addressed if the managerial effectiveness of the coop union is to be ensured.

Yet, six of the respondents sampled from different categories (one BOD, one managerial staff and four OCPA workers) held that in addition to the above problems, there is conflict of interest both at BODs and managers level reflected in that BODs retreat because of the inadequate benefit (financial compensation) they get from the coop union while that of managers implement the business activities that are not necessarily aligned with the mission of the coop union. Managers do so with the expectation that they will be eligible for the bonuses and other rewards.

Compared to the findings of Alberta, Chanddad, Richard et al.(cited in Ortmann& King, *ibid.*. 17), where members complain that managers of the coop were biased towards the social role of coops, sampled managers of the coop union understudy complain that 'some members consider the coop union as not-for-profit organization which can have the implications that members are oriented towards economic efficiency and think that the coop union is not business oriented or members are not confident that the coop union enables them generate the required return or consider the coop union to address their social problems only. Such kind of members' complain may arise out of members' lack of awareness of the prerequisite to become a member and the duties and responsibilities of membership thereof. The consequence is that such members' lose trust and confidence and fail to be loyal to the coop union ultimately creating conditions whereby free riders and hitchhikers dominate and derive benefits at the expense of members.

From the findings above, it can be seen that majority of the sampled respondents lack understanding of the unique nature of the coop business and consider it to be similar to that of IOF.

### **3.3.3.2. Analysis of non-managerial employees' related data**

The assessment of employees' opinion of how they contribute towards the achievement of the objectives of the coop union, how are they empowered and involved, and how far they are satisfied, was conducted on sampled employees of the coop union. The assessment result

revealed that five of the eight sampled employees said that employees of the coop union have well understanding of their responsibilities and hence accomplish the task assigned to them with planned efficiency and effectiveness and in alignment with the mission of the coop union. The other two respondent's response, though stated in different ways, focus on part of the former responses given by the five earlier respondents. But with respect to employee involvement, seven of the eight sampled employees said that the management encourage employees involvement using the different mechanisms mentioned by the seven respondents in varying statements, i.e. four of the seven responded samples said that the management used to involve employee by motivating them in such a way giving incentives in kind or in cash (such as bonus, training and education, letter of recognition, etc.); two said employees involvement is sought by making regular follow up, arranging discussion forum and giving feedbacks, and the remaining one of the seven responded respondents said management encourages employees involvement by making them take part in plan preparation and evaluation of performances, which were not mentioned by the other five.

Assessment made on employee empowerment in the coop union revealed that seven out of eight said that employees of the coop union are empowered and capacitated by the management raising some indicators like awareness of employees of their duties and responsibilities and accomplishment of their tasks as planned with full effort without any external imposition; employees involvement in planning, execution and evaluation as well as experience sharing. Only one respondent did not agree with the idea that employees of the coop union are empowered and capacitated for the fact that the contributions of employees are less regarded and weak motivation mechanisms are adopted by the management.

In line with the assessment made on employees satisfaction, five of the eight sampled employees said that employees of the coop union are satisfied and identify themselves with the coop union raising the following justifications, viz., employees commitments towards the achievement of the coop union's objective in the light of the direction given by the top management; commitment of employees to additional work without any additional payment and strong harmony among employees and the management. However, three of the sampled employees said that the employees of the coop union are not satisfied because of inadequate/limited incentives schemes, lack of transparency and poor communication system.

However, sampled employees' response on factors affecting employees' performance revealed that lack of in-service training, inadequate incentive, lack of adequate experience sharing program and limited exposure to modern technology are factors affecting employees' performance/productivity.

It was also discovered earlier that there is no well-developed shared view of the principles and values (or laws) that govern the coop union (as coop principles and values have already been included in the coop law of the country) and also its mission by all organs including employees of the coop union. Thus, there is no ground that justifies that employees are satisfied and identify themselves with the coop union.

The fact that there is no well-established system of communication and accompanying lack of awareness of rules, duties and responsibilities of governing organs as well as values, principles and mission of the coop union by all GA, BOD and managerial and non-managerial staff urges one to raise such arguments as, what inspires employees' as far as they are not well aware of the principles, values and mission of the coop union and towards what end do they strive? The responses given by the respondents may lack relevance when seen against this logic.

#### **3.3.4. Analysis of data related to members' participation and its effect on managerial effectiveness of the coop union**

Many writers such as Pozzobon & Zylberstajib, Gray & Kraenzle, and Shaw and others (ibid. 23) underlined the importance of members' participation for effectiveness of cooperative management. Gray & Kraenzle (ibid, 24) emphasized the importance of members' participation saying 'there is no cooperative without members' participation'.

Members participate in holistic way in both economic and social aspect, i.e. in governance and economic activities of the coop undertakes and also in promoting and protecting their coop. If members' participation is limited to economic patronage alone, the cooperative is no more than conventional business organization.

Considering the importance of members' participation in both governance and activities to ensure viability in coops, the major challenges cooperatives currently face are, how to enhance democratic members 'control (governance) and agency problem emanating from severance between management and leaders esp. at higher level cooperatives like cooperative unions. The

dual nature of cooperatives along with low level of members' participation aggravated such problems in coops.

In view of the above, twelve of the thirteen respondents (eight GA, four BODs) believe that members' participation in governance can be rated from average to very active and the remaining one respondent from GA said that members' participation in governance is passive. The assessment also depicted that seven of the thirteen sampled respondents (four GA and three BOD) hold that members' participation is passive in daily transactions indicating that the coop union is not active enough in transacting with its members'. The secondary data on members' participation in transacting with the coop union in grain marketing in the year 2013/14 shows that only 43% of members' delivered (sold) 41% of the grain purchased by the coop union while the remaining 59% was bought from the non-members. Besides, of the total amount of fertilizer the coop union blends, only 15% (about 75,000 quintals) is distributed to members, all most all PP bags produced by the coop union are supplied to UN and other international organizations whose services do not have direct link with members of the coop union. Further, the various factories being run by the coop union like fertilizer blending and PP bag and mat have not link with members other than that 15% of the fertilizer produced distributed to the farmers within the five Weredas (be it member or non-member). The situation is even worsening in 2014/15 in that only 40% of members delivered 39% of grain purchased by the coop union and all other services (like consumer goods distribution, agricultural goods transportation services, etc.) being equally open to both members and non-members.

This shows that no part of the profit generated from non-members, fertilizer blending, and PP bag and mat factories will go back to members in the form of dividend and rather retained as common capital. Moreover, some of the business units like PP bag production are not areas of priority to address immediate members' needs such as interventions to enhance production and proactivity of members' through forward and back integration, social wellbeing and self-reliance of members and other related issues. The implication here is that, the coop union is making business with non-members. This situation undoubtedly cause lack of confidence and loyalty of members (because of lack of transparency of how fair the coop union is governed and managed in its effort to deliver services expected of it to members' and the community, i.e. meeting members interest and wining trust of the community it operates in. Because of this and other

reasons such lack of awareness of their duties and responsibilities and unnecessary interventions of other stakeholders, members are less motivated to actively participate in the transactions of their coop union.

This situation is dangerous for the survival, effectiveness and sustainability of the coop union. This fact supports the responses of sampled GA and BOD members that members' participation is passive particularly in routine transactions. The efforts exerted so far also could not create strong bond between the coop union and its members indicating that there is a missing link. Members' participation, as some respondents pointed out, is thus in most cases based on the benefit they get from their participation, i.e., if they get more benefit than when transacting with conventional businesses, their participation increases. This shows that there is weak sense of membership and ownership of members as compared to the roles expected from members briefly discussed under the values and principles of coops. The slight difference in participation in governance and routine transactions hence emanate from a relatively better exposure and feelings of representation from GA members.

This exposes the coop union to hitchhiking and free riding problems and if not addressed soon, the situation may cause the coop union to complete lack of members' participation and ultimately suffer isomorphism. In fact, the coop union has included in its structure, members affairs department to address member participation related issues. Yet, the gaps prevailing in the area of members' awareness and passive members' participation shows that the organ is not performing what is expected of it.

The findings arouse question 'whether the membership in the union and in its member primary coops is based on adequate awareness and willingness or not'; if membership in this regard is based on adequate awareness and willingness, whether the coop union and its member primary coops suffer lack of autonomy and independence to decide on the affairs of their coop union are the areas need further assessment and explanation.

Yet the management argue that members of the coop union prefer their coop union for every service it renders for the following reasons, i.e. members are owners and users of the coop union services and are entitled to get quality services (product at fair prices); the union facilitates credit and market for their product, and supplies inputs to its members and some other related services

rendered by the coop union (eight sampled management members). According to the respondents, the coop union has given various trainings and education to BOD and GA to enhance its links with members'. But the respondents sampled from both GA and BOD said that members' participation is weak esp. in routine activities and the secondary data on transactions members' made with the coop union justifies this fact. Moreover, as can be derived from the responses of different category of data sources for this study, the coop union has been deviating from members' interests in its business investment (expansion) which undoubtedly erode confidence of members' and their motive to participate.

### **3.3.5. Analysis of data related to governments role in influencing managerial effectiveness of the coop union**

The role of government is of paramount importance to ensure effectiveness of cooperatives (as coops work to maximize services to members and the community, than profits) by effectively playing its role in terms of reforming and updating regulatory frameworks regulating functioning of cooperatives, providing audit services and stepping up enforcement of laws. As cooperatives work to protect their members and the community at large from malpractices prevailing in service delivery in the market, they usually face fierce challenges in an effort to serve their members' and the community on sustainable basis. Appropriate government support intervention can thus enable cooperatives realize their mission which will have significant contribution in development endeavor of the country both at local and national level.

In view of this, the assessment made in relation to the roles being played by the government to ensure effectiveness of the coop union revealed that the supports given so far comprises regulatory services, technical support and capacity building. On the other hand, respondents sampled from OCPA workers pointed out that the support given so far to the coop union are not satisfactory as the recommendations of technical staff, for one reason or another, could not in most cases be put into action by those in charge of making higher level decisions. Other findings of the assessment on factors affecting managerial effectiveness of the coop union are briefly discussed as below.

ILO as well as Linda, Chambo and Carpophores (ibid, 30-31) indicated the important role of level of autonomy in a cooperative, existence and enforcement of appropriate cooperative

development policy and strategy, existence of knowledge center and existence of institution/agency dealing with regulation, capacitation as well as enforcement of coop legislations, for effectiveness of cooperative societies.

- **Level of autonomy of the coops**

Lack of autonomy, as stressed by authors like ILO (ibid. 33) and Linda, Chambo & Carpophores (ibid. 30), is among the prevailing problems of coops in developing countries, esp. Africa contributing to their inefficiency. The summary responses from sampled OCPA workers depicted that four of the respondents said that the coop union is less autonomous giving evidences such as existence of unnecessary interference from the regulating organ (OCPA) and Wereda Administration in selection of leaders (BODs) and hiring and firing of managers which is beyond the support intervention required from regulatory organ and local government. This is against the international cooperative principles and also against the coop law of the country (i.e. proclamation No 147/98) as well as the coop union's byelaw which is in line with cooperative proclamation.

- **Cooperative Development policy and strategy**

Existence of coop development policy is very important tool to realize success as it clearly prescribes the duties and responsibilities of every stakeholders. In view of this, responses of sampled OCPA employees given indicated that all five respondents are of the opinion that there is no full and independent coop development policy specifically designed for cooperative movement in the country, but only slightly mentioned in rural development policy, showing that adequate attention has not been given to coop development by the government. Because of this, the coops in the country could not have their own support institution at regional or national level that can address capacity building and R&D needs of coops while simultaneously undertaking lobbying to resolve issues related violation of coop principles/coop law/ by stakeholders including government organs. This situation undoubtedly contributed to the prevailing gaps identified in the coop union in relation direction of growth of the coop union (business alignment) and role confusion.

- **Knowledge center for coops**

Knowledge center enables coops to identify their capacity along with their gaps, remain innovative and lead their business based on learned decisions. In this regard, four of OCPA respondents said that currently it is universities that serve as knowledge center for cooperatives by providing graduates employed in coops and organizing workshops to identify gaps for research which in return recommends solutions for their problems. However, one of the four sampled OCPA employees said that there is no knowledge center specifically established for coops. Of course, the current involvement of universities having cooperative department, as respondent indicated, is producing graduates to respond to the demand for professionals in this regard, and do not have mainstreamed programs for building the capacity of cooperative leaders and managers through various trainings, no close link to undertake researches focusing on cooperatives and the likes. Because of lack of knowledge center designed for coops, the coop union remained totally dependent on OCPA interest and effort to address the capacity problems of its BODs, managers and employees.

- **The role of OCPA to ensure effectiveness**

Oromia Cooperative Promotion Agency (OCPA) is the institution established with the mandate of organizing, regulating and capacitating cooperatives, of which the coop union under study is one.

The summary of responses of sampled respondents' revealed that, though OCPA is expected to play the roles of providing technical support, ensuring that coop business is aligned with members' interests (needs) as well as rules and regulations of coops; providing external audit service; capacity building support through education and training, what have been done so far is not to the expected level (as also stated in the coop proclamation no 147/98 under the article dealing with the 'appropriate organ'). The agency, according to respondents, has so far issued various regulations based on the cooperative societies' laws; have been given mandate to promote transparency; given training and education to members to build their capacity so as to enhance their participation in both governance and routine transaction. Some of the respondents however indicated that support given is not satisfactory as it could not maintain autonomy of the coop union to the required level within the current state the coop union is in.



In general, respondents from sampled OCPA workers, viewed factors affecting managerial effectiveness of the coop union from two angles, viz. *internal factors and external factors*. Accordingly, three of the sampled respondents from OCPA workers raised internal factors affecting managerial effectiveness of the coop union to be lack of enough knowledge about the coop business (though one of the three also added that lack of sense of ownership & inefficient BOD members and the other one added conflict between BODs and yet another one added lack of commitment of BODs) as factors affecting managerial effectiveness of the coop union. Yet, one of the five sampled OCPA respondents said that low members' participation (because of lack of confidence), weak internal control system and lack of competent staff are factors attributing to the problems of managerial effectiveness in the coop union. On the other hand, two of the three OCPA respondents mentioned above also stated the following as the external factors affecting managerial effectiveness of the coop union, i.e. unnecessary interference of external organs (e.g. OCPA, Wereda Administration, etc. on appointment of BODs and managers), outdated rules and regulations of the coops or their provisions, and competition.

### **3.3.6. Analysis of data related to the effect of competition**

Competition as many writers remarked, enhances the performance of the market in delivering better value to the people. However, unhealthy competition can stand against this reality. Grilio (ibid, 33) indicated that competitiveness of cooperatives is based on their own efficiency rationale, unlike that of IOF. Cooperatives, with their peculiar character, are operating in the market and hence can't escape from the wind of competition.

The summary of data collected from sampled management members in relation to the effect of competition on managerial effectiveness of the coop union shows that competition affects the managerial effectiveness of the coop union taking advantage of capacity limitation of the coop union in term of leadership, technology, management competence (four of sampled management members) and difference in business philosophy adopted (three sampled mgt. members). They have thus indicated that the mechanisms the management of the coop union uses to minimize the problem arising in this regard to be: strengthening integration between the coop union and its members (forward and backward integrations by two management, members), strengthening members' participation and undertaking frequent market assessment (four management,

members), and combination of the previous two along with using motivated and selfless managers and ensuring existence of transparency and effective communication system.

The point to be focused here however, is that the existence and sustainable effectiveness of the coop union can be ensured if there is full members' trust and loyalty reflected through their active participation in both governance and transaction of the coop union.

### 3.3.7. Contribution of the coop union to local development (governance)

Cooperatives as MBO are among the local development actors (governance partakers). Cooperatives play significant role in local and national development endeavors by correcting government and market failure in such a way by creating employment opportunity, providing goods and services.

In light of this, sampled respondents from BODs, management and OCPA workers emphasized that the coop union has been playing in Wereda local, regional and national development endeavors. They all indicated that, though expressed in different ways, the coop union has significantly been contributing to the local development endeavors through its participation in different types of social services and contributing to alleviation of social problems (supply of various agricultural inputs and machineries, employment opportunity creation, support to disabled citizens, NRC, health post construction, support to Wereda agricultural and administrative office; building the capacities' of leaders of member primary coops through training, facilitation of market and credit for member primary coops, provision of market information, undertaking agro-processing to add value to members products and surrounding community, etc.). Besides, the respondents indicated that the coop union is engaged in fertilizer blending activities and PP bag production to support the agricultural development endeavor of the country. Secondary data given in table 7 below is the evidence justifying the contribution the coop union made to local development of the Wereda mentioned above.

Table 7: Summary of contributions of coop union to the local development of the Wereda

No	Contributions made	Qty	Amount in birr	Period
1	Employment created	931	-	
1.1	Permanent	431		
1.2	Casual	500	-	
2	NRC		486,000	s t
3	Support to disabled students	339	480,000	

4	Support to outstanding students	25	62,500
5	Health post construction		<b>1,580,000.00</b>
5.1	Human health post	1	1500,000.00
5.2	Animal health post	4	1,400,000.00
6	Support to Wereda offices of five Weredas (administrative, agriculture, Cooperative)-Motor bike, computer, fax machine, etc.		759,000.00
7	Warehouse construction	5	
8	Other development activities like bridge construction	1	1,200,000.00
	<b>Subtotal total</b>	<b>L/sum</b>	<b>6,117,500.00</b>
9	Blending and supplying fertilizer and other inputs		Distributed over 280,000.00 quintals of fertilizer (which costs over birr 300 million)annuallyall over the country

Source: BechoWelsioFarmenrs' Cooperative Union record, June, 2015

From this, it can be imagined that the coop union can make more significant contribution to the local development endeavor of the Wereda if the factors affecting its managerial effectiveness are addressed.

The assessment in this area also addressed factors limiting the capacity of the coop union to not fully play its role in the local development of the Wereda. Majority of the respondents (three BOD, six management members' and 5 OCPA workers) indicated that lack of competent & visionary leadership, unnecessary interference of external bodies like OCPA and Wereda Administration, lack of coop development policy and strategy and less research support, limited awareness and human resource and lack of commitment from the BOD are the major factors limiting the managerial effectiveness of the coop union which in turn limit capacity of the coop union to fully play its role in the local development endeavor of the Wereda.

### **3.4. Analysis of data collected through FGD**

The purpose of this focus group discussions is to get better understanding of factors affecting managerial effectiveness of the coop union through discussions made among participants selected from different categories of respondents. Participants were selected form sampled respondents based on homogeneity of their role as well as on their experience and exposure to the coop union's business and were then assigned into three groups. Group I consists of six

participants selected from internal governance organs (two GA and four BODs), group II consists of six participants from the management team and group III comprises 5 OCPA workers.

The points of discussion initiated by the researcher were categorized into five major themes, viz., 1. How participants understand cooperative governance and the governance practice in the cooperative union understudy, 2. How members' participation affects managerial effectiveness of the coop union, 3. The role of government in influencing managerial effectiveness of the coop union, 4. The effect of competition on managerial effectiveness of the coop union and 5. The contribution of the coop union to the local development endeavor.

The researcher then allocated these discussion themes to the three groups according to their relevance. To this effect, themes 1, 2 & 5 were discussed on by the three groups each; theme 3 was discussed by group I (BOD) and group III, and theme 4 was discussed on by group II & III. The discussions made by the participants of different groups on the five different themes shown above are given as below.

### **3.4.1. Cooperative governance and the governance practice in the coop union**

#### **i) How cooperative governance is understood by the participants**

##### **Group I: Participants form GA and BOD**

In the discussion made by participants from group I on their understanding of cooperative governance, one of the from GA member participants said that governance in cooperative is the process whereby the management runs the business of the coop by advising the BODs. The other GA member participant said that duty of managing the coop with the aim of maximizing return on members' economic participation.

On the other hand, two BOD participants (BOD chairperson and one board member) said that governance in cooperatives is guiding the business of the coop union on behalf of the entire members using the advice of professional managers. They believe that BODs simply ease conditions for managers by approving proposals of the management like plans, policies, guidelines and key financial decisions. But one BOD participant (the BOD control committee chairperson) said that coop governance is the situation where a coop is led in full

compliance with the coop values and principles and the work of the management is governed by the directions given from BODs.

This shows that both participants from GA members fail to identify the difference between governance and management and hence lack proper understanding of what coop governance is. Moreover, it has shown that majority of BOD participants are not well aware of what coop governance is while they are in charge of playing governance role. This situation can undoubtedly have implication on discharging their governance role as per their mandate.

### **Group II: Participants from management team**

The understanding of all except one participant from management team on coop governance is more or less similar, i.e. cooperative governance is the function of leaders (management, GA and BOD) of the coop union whereby the managers prepare all strategic documents, plans and policies; advise the BODs to make wise decisions so as to ensure success of the coop in terms of economic efficiency. They indicated that the contribution of BODs is minimal as both preparation and implementation of strategies are shouldered on the management.

This shows that the involvement of BODs is no more than procedural, i.e. just for formality, and hence they add little value in the governance process of the coop union. This supports the response of BOD participants given above that majority of BOD members are not well aware of what coop governance is.

### **Group III: Participants from sampled OCPA workers**

Though explained in different ways, participants from OCPA workers explained governance of cooperatives as the process whereby the GAs define the purpose/mission of the coop in view of the coop values and principles and delegate BODs to put the mission of the coop into practice by giving strategic direction to the management. Moreover, the government also plays key role to create conducive legal framework as well as establishing regulating institutions (frameworks i.e. rules, regulations and organs responsible).

However, as explained above, the GAs lack capacity as well as awareness of what cooperative governance is and hence can't be expected to define the purpose/mission of the coop union. Moreover, the BODs are also not well aware of the coop governance as well as the roles

expected of them and hence are not expected to properly put the mission of the coop union in to practice.

## **ii) The Governance practice in the coop union**

### **Group I: Participants form GA and BOD**

Assessment on how governance is practiced in the coop union enables to know how different organs are discharging their roles and responsibilities. In line with this, one GA participant indicated that he understands the governance practice in the coop union understudy, whereby the GA approves the plan/ budget of the coop union and approves the report for the same. The other GA participant said that he understands the governance practice in the coop union whereby GAmembers' impalement the directions given from the General Manager (GM) of the coop union at their primary coop level.

Participants from sampled BOD members have also given their opinion on the governance practice prevailing in the coop union. Accordingly, two of the participants form BOD members explained the governance practice in the coop union whereby the management technically develop policy and plan documents as the standards (tool) to measure performance which are approved by BODs. They thus held that governance in the coop union is based on loyalty, integrity and selflessness of managers so long as non-professional BODs are based on the genuine professional advice of the management to ensure effectiveness of the coop union. The other one BOD participants (BOD control committee chairperson) explained that the coop union lacks the autonomous governance of GAs and BODs for various reasons such as the GAs and BODs gaps in terms of professional competence and overlapping family and social responsibility coupled with the influence of other stakeholders (like Wereda Administration) to use coops towards their interest. He added that the coop union's service and business expansion is not in line with the expectation of its members and hence members' participation is weak in routine transactions where non-members take advantage of favorable market conditions created by the coop union (that means the coop union is exposed to free riding problems). Moreover, he explained that tough, the BOD members say that they critically review decisions proposed by the management, the practice is that the BODs approve whatever decision proposed by the management without taking into account the likely consequences of those decisions as they lack

professional capacity to do so (BOD control committee chairperson). He further stressed that investment proposals in the coop union in most cases come from OCPA and Wereda Administration, indicating how stakeholders go beyond their mandate and interfere and play the role of internal governing organs like BODs.

The remaining one BOD participant explained governance practice in the coop union as the process whereby the BODs undertake its management oversight and control activities through its bi-weekly and monthly meetings and reporting the result of its work to GA consisting of 198 members taking into account the directions given by the OCPA, GM and Wereda Administration.

The difference between the last two BOD participants is that the BOD control committee chairperson has better awareness of the roles of the different governance stakeholders of the coop union and that some stakeholders in most cases go beyond their specified mandates hence are making unnecessary interference in the affairs of the coop union. The other BOD member however, seems that he has been recognizing that the existing practice is right.

All the GA and BOD participants, but BOD control committee chairperson, argued that there is good governance in the coop union as far as key decisions are made by the BODs and the management is held accountable for their performance. The BOD control committee chairperson however, held that as far as members' participation, which is key for the existence and effectiveness of the coop union, is weak and the BODs lack capacity to challenge management's decisions, it is difficult to say there is good governance in the coop union. It thus depends on the legacy of the management and other stakeholders like OCPSA and WeredaAdministration.

They then debated on the conflicting ideas raised from the participants and came to understand that capacity limitation of GAs and BODs is exposing the coop union to the unnecessary influence and interference of other stakeholders.

### **Group II: participants from the management team**

In line with the governance practice in the coop union understudy, three participants from the management (GM, deputy GM and plant coordination head) said that there is good governance in the coop union as far as the management is advising the BODs in strategic decisions and the

regulatory (OCPA) provides all necessary supports in terms of technical advice, training and coaching. The GM however, stressed that some stakeholders like Woreda Administration sometimes make intervention beyond their mandate.

The other two participants from the management said that the BODs themselves, in addition to their capacity limitation, are not fully committed as they are preoccupied with responsibility to support their families' livelihoods and other social responsibilities. The remaining one management participant (head, members' affairs), however, said that the governance practice in the coop union needs improvement where all organs become well aware of its duties and responsibilities, as many stakeholders fail to adhere to their specified mandates either because of lack of awareness or because of absence of accountability.

This shows that BODs are highly dependent on the management to discharge their governance role, some government organs like Wereda Administration fail to o comply with the cooperative law and interfere with in the affairs of the coop union; the BODs, besides lacking the required competence of professional governance, lack commitment because of overlapping family and social responsibilities.

### **Group III: Participants from OCPA**

The governance practice in the coop union reveals that the internal governance stakeholders lack awareness and capacity, and the external governance stakeholders fail to adhere to their specified mandates as they enforce decisions in their lines of interest violating coop laws, values and principles.

Two of participants from OCPA workers (head of saving and Credit coop department, and expert for promotion of agricultural cooperatives) said that the coop union having several gaps such as lack of professional governance, weak members' participation and interference of external organs (OCPA and Wereda Administration), it is not possible to say there is good governance in the coop union.

#### **3.4.2. How members' participation affects managerial effectiveness of the coop union**



### **Group I: Participants from GA and BOD**

In the discussion made on this theme, both GA and BOD participants of the group have given their opinion on the practice of members' participation in the activities of the coop union. In line with this the two GA participants said that they believe that BODs are responsible to ensure that the coop union's operates in line with right direction given by OCPA and management of the coop union. They explained the prevailing members' participation under the prevailing governance practice as follows, i.e. that members duly consider the benefit they derive from participating in their coop, if they get better benefit from else were other than their coop union, they don't bother to participate in the coop (one of the GA participant); members participate actively when the coop union distributes inputs as there is no better alternative than the coop union, and for other transactions there is no binding condition (the other GA participant).

In view of BOD member participants' opinion, two BODs (the control committee chairperson and one other BOD member) are of the idea that members' participation is weak while the services of the coop union is open to all, hence freeriding problem is there. They added that members participate if they are well aware of the benefits of participating in the coop union, their benefit that non-members are not eligible to, hence lack of awareness is limiting members' participation (control committee chairperson). There is no accountability for not participating in the coop (the other BOD participant).

The BOD chairperson however said that it is after serving members that non-members get served by the coop union and hence there is no freeriding problem.

The remaining one BOD participant said that as far as the coop union is operating in free market, its role is creating strong bargaining power for members and members can be served from wherever they think is beneficial to them. They said that members get better market price for their produce and also get input supply (economic aspect) and which at the same time does not ensure sustainable viability of the coop union. Input supply however is not for the members of the coop union alone, but also to all parts of the country where the instruction is given from the government. Though this is very important from the perspective of national economic development endeavor, it should be aligned with the interests of members', otherwise, the

question of democratic members' control, autonomy and independence on the governance affairs of the coop union will be under question.

From the above discussion of GA & BOD, members, we can derive that members' participation in the coop union is dictated by the competitive benefit they get rather than the coop principles and hence it seems that it was not the needs of members that brought the coop union in to existence, nor are there efforts to build adequate awareness of members' so that they clearly identify the benefit of membership along with the duties and responsibilities emanating thereof. The coop union has thus come into existence by pressure of external organ (OCPA) alone.

### **Group II: Participants form the management team**

All the participants from the management team are of the idea that members participate actively in their activities of the coop union.

The management's answer to the question raised by the researcher "How could you say that members' participate actively while the record of members participation in grain marketing, for example, shows that only 43% of members delivered 41% of grain purchased by the coop union while the rest 59% is delivered by non-members", was attributed to lack of awareness of members. This shows that there is a missing link indicating that there is no effective system of communication to make members' aware of the benefits of membership and related duties and responsibilities as this determines the success fate of the coop union.

Considering the gaps identified with the capacity of BODs to professionally coach and supervise the management, prevailing weak members' participation, lack of shared vision on the coop union's values, principles and mission, it seems that non-members take advantage of using the services of the coop union at the disadvantage/cost/ of members (i.e. there is hitchhiking effect or freeriding problems in the coop union). The secondary data on members' participation, whereby only 41% of grain purchased is supplied by members, (59% being what has been supplied by non-members) supports the above idea. The situation is situation is very dangerous for existence and sustained effectiveness of the coop union.

### **Group III: Participants form OCPA**

All participants form OCPA said that membership in the coop union is based on shallow awareness of the benefits of membership and their duties and responsibilities emanating thereof.

This is because the regulatory organ focused only on the short term objective of convincing members to join the coop union, overlooking the consequence of lack of members' awareness about the benefits of membership in relation to coop principles and responsibilities related to it on sustainability of the coop union.

The findings from the analysis of the information obtained from the three groups shows that members critically lack awareness of the benefits of members participation and the duties and responsibilities emanating thereof. Moreover, the management and OCPA also did not invest adequate effort to address the gap.

### **3.4.3. The role of government in influencing managerial effectiveness of the coop union**

Taking into account the roles and mandates given to the different stakeholders, the two groups (group I & III) were asked to discuss on the roles being played by the government in relation to the coop union understudy.

#### **Group I: Participants from BOD**

The BODs said that the government (OCPA and Wereda Administration) is playing its role properly to make the coop union effective by giving directions on various affairs of the coop union (the BOD chairperson and one BOD member). The BOD control committee chairperson, however, said that OCPA and Wereda Administration sometimes interfere beyond their mandate in the affairs of the coop union.

This shows that there is big awareness gap among the BOD members about the mandate of the different stakeholders and hence seen to give up their roles to others.

#### **Group III: Participants form OCPA**

The government plays very important role in terms of provision of legislative frameworks, establishing regulating institution, capacity building and other support services but lack enforcement of the legal frames in place (two participants from OCPA workers). OCPA's support in most cases encourage dependency and denies the autonomy of the coop union (two OCPA participants). Failure to revise and update the legal frameworks is having negative implication on the coop union's performance (one OCPA participant).

From this, it is possible to derive that regardless of its many positive support interventions, the government's intervention has been negatively affecting managerial effectiveness of the coop union in terms of failure to enforce coop laws (violation of coop principles and values) by acting against the principles of autonomy and independence and failure to enforce proper implementation of coop law by other stakeholders too.

The findings from the two groups thus revealed that the two groups thus revealed that majority of BOD members lack awareness of the mandates of the different governance stakeholders and hence is open to violation. Besides, the government is not enforcing the legal fames in place and also fails to timely revise and update the coop law as the existing law could not respond to the current level of coop growth.

#### **3.4.4. The effect of competition on managerial effectiveness of the coop union**

The participants from management team and OCPA workers were asked whether the coop union is capable of overcoming the problem of competition taking into account what have been discussed so far, capability of the internal governing organ to strategically direct the coop union and the government's role.

##### **Group II: Participants from management team:**

The coop union is competitive as it is performing well and expanding its business, building its capacity through technology (GM, deputy GM and one management participants), the coop union is growing strong but still dependent on the support of OCPA (one management participant); the other management member said that the government support is very low in view of the roles expected of it to make the coop union competitive. But the other participant from management team said that the coop union is competitive in the fact that even non-members are found preferring to be served by the coop union.

This discussion of participants from management team reveals that majority of management members did not clearly identify where the competitive advantage of the coop union lies as they are referring to the current performance record of the coop union. The did not take into account

that the current performance record of the coop union is not based on strong and promising base as it (the coop union) did not win members trust and loyalty.

### **Group III: Participants from OCPA workers:**

The coop unions has shown significant growth but there are critical gaps that can expose it to the adverse effect of competition. These include weak members' participation, lack of autonomy of the governance organs/interference of external body (2 OCPA workers); lack of own support institution and knowledge center as well as limited exposure to the use of modern technology (one OCPA participant) and lack of professional capacity and limited commitment of by BODs (2OCPA workers).

The discussion of two groups enabled to identify various factors exposing the coop union to lose its competitive advantage. These include weak (passive members' participation, lack of governance profession (knowledge) and accompanying lack of autonomy of internal governance organs, lack of coops own support service and knowledge center.

### **3.4.5. The contribution of the coop union to the local development endeavor**

All the three groups have discussed on the above theme separately. Regardless of the variation in details, all participants from the three groups underlined that the coop union is making significant contribution to the local development endeavor in terms of employment creation, support to health services, natural resource conservation, support to disabled and some other areas. However, participants from OCPA workers and the BOD control committee chairperson also stressed that the coop union could have contributed even more had all stakeholders properly adhered to their specified mandates while discharging their duties and responsibilities and proper support intervention been made by the government and its concerned organs.

## **Chapter IV**

### **Conclusion and Recommendation**

#### **4.1. Conclusion**

As explained by Nwadukwe&Timinepere (ibid. 12), an organization is an entity consciously setup to accomplish certain purpose such as creation and delivery of goods and services that meet the needs and wants of the people. To effectively meet their purpose in the highly dynamic and competitive global and local environment, therefore, organizations need to attain the quality of effectiveness which in turn is mainly dependent on managerial effectiveness. Pfeffer&Salancik (as cited in Vinitwatanakhun, ibid. 13) posit that organizations survive to the

extent they are effective and they are effective to the extent their managers can manage the organization effectively. Managerial effectiveness is thus non-substitutable factor determining effectiveness of the organizations.

Cooperatives, having their own salient features, are the local development actors operating in the competitive local and global environments to address both government and market failures. They strive to meet their purposes within environment of more challenges than that faced by the conventional businesses. That is to mean, in addition to sharing the challenges faced by the conventional business, cooperatives face other challenges emanating from their dual nature, principles, and complexities in their governance & management. The importance of managerial effectiveness is therefore more pronounced in cooperatives than in conventional businesses as cooperatives, particularly agricultural ones, suffer from various contextual challenges. The success fate of cooperatives, in the context of our country, thus depends to a large extent, on the effectiveness of their managers.

This study was thus setup to assess factors affecting managerial effectiveness in the case understudy, i.e. in Becho-Weliso Farmers' Cooperative Union, as local development actor. To this effect, study sought to identify the contribution of the coop union understudy in the local development endeavor of the Wereda. It also assessed the various factors that affect managerial effectiveness of the coop union in its effort to play its role in the local development endeavor. These include competence of governing organ (GA & BOD); competence of employees (managerial and non-managerial); members' participation, government and competition. In line with this, the study thus identified issues related to capacity limitation of governing organs/leaders (GA & BOD); competence gaps of employees (managerial and non-managerial), critical gaps with members' participation and the influence of government and competition as factors affecting managerial effectiveness of the coop union.

Based on the findings of the study, conclusions drawn have been presented as follows under six major categories (i.e. 4.1.1. to 4.1.6) as follows.

#### **4.1.1. Contribution of the coop union to local development endeavor**

This cooperative union being one of the local development actors in the Wereda, has been making significant contribution as the findings of the study disclosed. These include the

contribution of the coop union in employment opportunity creation, natural resources conservation, health post construction, support to disabled, support to outstanding students, and support to Wereda agricultural as well as administrative offices, agricultural input distribution, agricultural mechanization and the likes. Yet, the coop union could contributed more had it not been constrained by various limiting factors gaps given below.

#### **4.1.2. Leadershiprelated gaps**

The findings of this study revealed several factors constraining managerial effectiveness of the coop union. These include lack of professional competence and commitment of BODs, incomprehensiveness of the byelaw of the coop union; lack of established communication system/MIS;less attention and weak commitment of BODs; lack of well-developed system/standards of accountability; lack of well-established and cohesive organizational culture; missing links in the organizational structure, lack of alignment of the coop business units with the interests of members'; influences from external organs; absence of knowledge center for coops and accompanying absence of focused research work to scientifically identify problems of managerial effectiveness and design appropriate solution.

##### **4.1.2.1. Lack of competence and commitment leaders (GAs and BODs)**

It was discovered in this study that both the BODs and GA members of the coop union have low educational profile and hence lack intellectual level of educational qualification. The GA members of the coop union are not aware of the difference between governance and management. Moreover, the BODs lack knowledge of what the coop governance is, while they are in charge. They are thus not expected to provide modern and effective leadership and are rather highly dependent on the support of the management team they are supposed to supervise/oversee (i.e. give strategic direction) and also on OCPA to undertake their governance activities. This shows that they arenot independent even in strategic and oversight concerns, i.e. the oversight activities of the coop union's board of directors may lack genuineness as managers are overseen based on the advices and tools they provide to BODs. From this, it can be seen that the coop union's board are not '*challenger board*', i.e. not highly involved in providing advice and coaching as well as monitoring and controlling of the performance of managers. They are



rather a '*rubberstamp type board*' that is neither strong, capable advisor and coach, nor energetic watchdog who focus on small and even trivial issues leaving major decisions to management. Such board of directors, as Hoel (n.d.:6-8) stated, are likely to go along with what the management wants and decides. They are thus prone to believe that the coop union (organization) under consideration is doing well, no matter what the real situation may be.

The BODs of the coop union, also lack commitment, in addition to the capacity limitation, because of the overlapping responsibility of family livelihood concerns which the compensation from the coop union could not cover.

#### **4.1.2.2. Incomprehensiveness of the byelaw of the coop union**

The findings of the study revealed that the coop union's BODs are challenged, among others, by lack of comprehensiveness of the coop byelaw for some major reasons identified, viz. the mission statement of the coop union is skewed or biased towards economic aspect of the coop only, biasing the coop union's business philosophy towards economic efficiency (profit maximization). This has the implication of orienting the various policy and executive organs of the coop union as well as other stakeholders towards economic efficiency (which is similar to the organizational philosophy of IOFs). Moreover, it did not include well-defined roles, duties and responsibilities of the different stakeholders (like GAs, BODs and the management). The likely consequence is that the policy organs lack grounds to give appropriate strategic direction to the management in an all walks towards meeting members' interest.

#### **4.1.2.3. Lack of established communication system**

The findings in chapter three revealed that the coop union does not have established communication system (MIS) as a result of which relevant internal stakeholders had limited and non-uniform understanding of their roles, duties and responsibilities; the policy organs of the coop union (GAs and BODs) could not identify the roles of different stakeholders; the various stakeholder lack knowledge of the nature of coop and coop business as well as organizational philosophy of the coop union, and all internal stakeholders (members, GAs, BODs and employees) lacked shared view on coop values, principles and law. All the above gaps are significantly affecting the performance of both policy and executive organs in general and

managerial effectiveness in particular and hence need immediate consideration of regulatory organ (OCPA) to address the problem and put in place effective framework that ensures good governance capable of realizing managerial effectiveness in the coop union. The coop union is also required to give attention to enhance its communication system so as to contribute towards addressing the problem related to lack of established communication system.

#### **4.1.2.4. Lack of well-developed system/standards of accountability**

There is no well-developed system of accountability, like code of conduct, and practice of implementing the standard/system of accountability for under/nonperformance in the coop union, particularly for BOD and organs answerable to them. Besides the various factors affecting managerial effectiveness mentioned earlier, because of lack of system of accountability, productivity of both policy and executive organs may not to be the expected level as cohesive feelings of unaccountability may prevail.

#### **4.1.2.5. Lack of established organizational culture and shared view on the coop values, principles and laws**

The study revealed that the policy organs (the representatives of the founders) of the coop union (GA and BODs) lack understanding of what organizational culture is and how it affects managerial effectiveness in the context of the coop and hence were not aware of what culture to promote, establish and inculcate within the community of the coop union. The findings thus revealed that all GA & BOD members lack understanding of what organizational culture is and how it affects organizational effectiveness while the managerial team misconceived the organizational culture in the context of coops in that they perceived service (not profit) maximization culture of the coop union made members to consider the coop union as Not-for-profit organization. The implication is that management intends to create organizational culture that promotes profit maximization than service maximization using the capacity limitations of the founders (or their representatives) in that they are not in a position to create organizational culture that fit their specific values and beliefs.

Moreover, it can be derived from the findings of the study that all the community of the coop union (members, GAs, BODs and employees) lack shared view on the coop values, principles and peculiar nature of the coop business.

The question that one should however, raise here is that ‘what principles then govern and motivate these stakeholders to pay commitments towards achievement of the goal of the coop union. If they are not well aware and hence not committed to comply with the values and principles, or in other words with coop laws and mission, the coop union inevitably suffer isomorphism. The coop identity statement of ICA 95 underlined that coops must be sure whether they are following not simply the statements of cooperative principles, but also the spirit that the coop principles carry/convey.

#### **4.1.2.6. Missing link in the organizational structure of the coop union**

The findings of the study revealed that the existing organizational structure did not differentiate all necessary organs to be accommodated in the structure and effectively coordinate/integrated same for better performance. This is because the existing organizational structure, *first*, did not ensure effective communication system (as there is no organ dedicated for this purpose) reflected in lack of transparency and awareness different stakeholders of their duties, responsibilities and accountabilities; *second*, did not bring in place well defined duties and responsibilities of GA and BOD members; *third*, did not enable the coop union to have the required level of competence esp. primarily at BOD and also at management level; *fourth*, did not ensure alignment of organizational purposes with organizational resources reflected in that some of the business units of the coop union have little or no alignment with members’ interests, i.e. organizational purpose, *fifth*, is a traditional triangular shaped hierarchical type which has little or no room for flexibility; *sixth*, did not ensure existence of effective system of accountability.

#### **4.1.2.7. Direction of growth of the coop union’s business (non-alignment between business units and members’ interest)**

Though the coop union seems successful in terms of investment and financial return, most of the business units are not aligned with members’ interests and hence may not bring the required

difference in the lives of members'. This situation, if left unaddressed, will put the sustainability issues of the coop union under question as this can lead to members' loss of confidence and trust. The current fast growth of the coop union is biasing the stakeholders as if it is on the right track to achieve its intended purpose. However, considering peculiarity of coops, i.e. their dual nature, it is hardly possible to say that the coop union is on the right track to achieve its mission/purpose as many of the business units (plants and factories established) are not in line with members' interests (i.e. either do not use members' products as inputs or do not impact on the individual member's return /social and economic).

#### **4.1.3. Managers related gaps**

The findings of the study, in relation to the roles of managers for effectiveness of the coop union, depicted that managers play indispensable role for the sustenance and effectiveness of the coop union as they play key role in both strategy formulation and strategy implementation to compensate for the capacity gaps of BODs. Yet, it has been seen that there are gaps affecting their effectiveness in terms of skill, perception, principal agent relationships, i.e. the study revealed that managers of the coop union have skill gaps in conceptual and people skills. Managers of the coop union also understood (perceive) the managerial effectiveness and organizational philosophy of the coop union as that of conventional business, i.e. achievement of economic efficiency in terms of profit maximization (ROI).

Moreover, the findings of this study, such as hitchhiking effect and freeriding problems (emanating from weak members' participation), BODs loss of commitment to discharge their governance role because of their dissatisfaction with the compensation the coop union provides, and lack of alignment of the coop union's business units with the interest of members are symptoms for the existence of principal agent problems.

#### **4.1.4. Weak members participation**

This is very critical as the survival, success and sustainability of the coop union to a large extent depends on members' participation. Members' participation, as can be derived from the assessment, is weak particularly in routine transactions. The record of secondary data in routine transactions of the coop union revealed that only 49% of members' delivered 41% of grain the coop union purchased in 2013/14 and 40% of members delivered 39% of grain purchased in

2014/15. Besides, of the fertilizer blended by the coop union, only 15% is distributed within the vicinity of the work area of the coop union. Other factories run by the coop union, like PP bag and mat factories, do not have link with the immediate needs of its members. Members' participation in the coop union is thus currently determined by the benefits they get from participating. This shows that the members of the coop union have been oriented towards the economic efficiency principles of the conventional business, not in line with the spirit of the principles of coops, i.e. members' critically lack awareness of benefits of membership and the duties and responsibilities emanating thereof. What can be derived from this situation is that there is no real sense of membership and belongingness. As discovered in the findings, members' participate as far as they get better benefit from the coop union in comparison to conventional businesses. Weak members' participation, according to the findings of this study is the result of incompetence of leadership and indication of members lose confidence where they fail to be loyal to their coop.

#### **4.1.5. Government role related gaps**

##### **4.1.5.1. Weak enforcement of rules and regulations**

Weak enforcement of rules and regulations exposed cooperatives to suffer from lack of autonomy and independence, unnecessary interference of external organs and some other related problems.

##### **4.1.5.2. Lack of knowledge center specifically designed for cooperatives**

The dynamic and fast changing local and global environment is urging business organizations to support their business undertaking by research and development which enables them to scientifically identify their strength, weakness, opportunity and threats (challenges) along with their competitive advantage. They then design appropriate strategy that enables them remain competitive. In this regard, cooperatives have peculiar advantage as they can have R&D center in common using the principle of 'cooperation among cooperatives'. Such knowledge center, in addition to producing coop professionals, providing short term trainings for managers, employees and BOD members of the coops, undertake various research works to identify problems coops are facing while undertaking their business and forward possible solutions. However, the organ responsible to build the capacity of coops (OPCA) did not facilitate the

establishment of knowledge center for coops yet and the coop union understudy's work in most cases are not research supported.

Unavailability of knowledge center specifically designed for cooperatives is thus among the factors aggravating the problems of managerial effectiveness in the coop union understudy, hence need solution.

#### **4.1.5.3. Outdated provisions of cooperative laws**

Some of the provisions of existing cooperative laws (proclamations) are giving rooms for the coop union to deviate from members interests thereby paving the way for occurrence of hitching and freeriding problems. This situation, in addition to causing members to lose confidence and trust, leave the coop with stunted growth trend.

#### **4.1.6. The effect of competition**

The findings of this study depicted that limitation of the coop union in term of leadership and management incompetence, lack of cohesive organizational culture, weak members' participation, limited technological capacity, lack knowledge of the difference in business philosophy of coops and conventional businesses, lack support institution and some others made the coop union to be affected by the wind of competition in the market.

As discussed earlier, the coop union working under all the challenges identified, made significant contribution as local development actor and has shown its potential for further contribution if the identified problems of managerial effectiveness are addressed.

## **4.2. Recommendations**

Taking in to account the findings detailed in chapter three and the conclusions drawn from that, the following recommendations are forwarded to improve the situation.

### **4.2.1. The coop union**

- Should revise its bylaw to make it comprehensive by encompassing the two aspects of the coop along with well-defined duties and responsibilities of policy and executive organs.
- Should revise its organizational structure and include organs responsible for training, education and information/communication so as to address problems related to awareness of members, policy and executive organs of the coop union;
- Put in place standards of accountability for relevant organs (BOD, management and employees) and ensure its proper implementation
- Should ensure representativeness of GA members and proper appointment of BOD members’;
- Should strongly work to strengthen members’ participation in both governance and routine transactions of the coop union by addressing factors leading to loss of members’ confidence and their motive for participation, and ensuring that real sense of membership and belongingness has been built. Besides, the coop union should strengthen its link with its members through backward and forward integration so that the issues of alignment with members’ interest will be addressed and the coop union works towards realizing holistic change in the lives of its members.
- Should duly take into account the alignment of its businesses with its members’ interests to ensure long term success and sustainability (i.e. direction of growth of the coop union);
- Develop mechanisms to further motivate and empower managers with strong sense belongingness and unreserved commitment/selflessness through training, development shared vision, various incentive schemes;
- Give relevant trainings to employees (managerial and non-managerial) at coop management and research institute to enhance their knowledge and skill of coop business

#### **4.2.2. Organizing and regulatory body (OCPA)**

- The interventions of the organizing and regulating body (OCPA) should not be one that encourages dependency of coops on its support all the times. Its intervention should provide support to coops in a way that enables cooperative societies to stand on their own. To this effect, it can draw lessons from countries where coops have shown success

and contributed to the improvement of the living standards of the people and contextualize them to our countries situation, from which the coop union understudy can benefit.

- It should build the infrastructures that enable to build the capacity of coops such as **establishing knowledge center** like *cooperative management and research institute* that work to build leadership capacity of coop leaders (BOD) and managerial capacity of as well as technical capacity of other staffs of the coop union, and undertake research to find solutions to problems of cooperatives, and provide community service. OCPA can realize establishment of such institute thorough coordination of cooperative unions and federations and where possible capable primary coops. This will help the coop union to get access to the right place to build capacity of its leaders and even managers and other employees while simultaneously solving their problems in a scientific way (i.e. research based) to ensure sustainable growth;
- It should strongly work on shared view of employees (managerial and non-managerial) on coop values and principles so that their perception can be shaped in the context of business philosophy of cooperatives;
- It should enforce proper implementation of the rules and regulation of coops;
- It should work to create awareness among all other stakeholders and the general public on the rules, regulation, values and principles of coops;
  - The organizing/regulatory body by itself should have commitment to abide by the coop regulations, principles and be exemplary to others;
  - It should fight unnecessary interference from external body and ensure autonomy and independence of the coop union;
  - Should ensure representativeness of GA members and proper appointment of BOD members’;
  - Should encourage the cooperative union to make learned decisions based on research/study conducted considering its context;
  - Should find solution for the problem of leadership competence by bringing in competent and challenger boards in such a way by looking in to options like:



- ✓ Revising the existing guideline and criteria of BOD members' recruitment so that the new BOD members will be recruited and elected for four years. The election of the new board members will be made one year before the end of office term of BOD members' in operation where the first of the four years will be used as time for training and preparation. Criteria for recruitment of board members should include among others, minimum educational level of completing grade 12. They are then required to be trained for at least six months on leadership and coop business management at cooperative management and research institute to be established;
- ✓ **stakeholder theory approach:** where the cooperative union intentionally embraces those with better qualification and experience as members and then appoint them in its BOD;
- ✓ **Associate membership:** where the coop union can bring interested individuals with the necessary qualification and experience in cooperative business and spirit as associate members and involve them in BODs;
- ✓ Combination of the above options as appropriate;

### 4.2.3. The government

- The government, taking the potential contribution of cooperatives to its development endeavors and improvement of the life conditions of the people into account, needs to regularly amend or make additions of new provisions were necessary and ensue their enforcement so as to enable cooperatives play the role expected of them effectively;
- Ensure that all relevant stakeholders work in compliance with existing coop laws and principles and avoid unnecessary interference in the governance and management of the coop union other than the technical advice and regulatory services provided by the body mandated (OPCA in this case)to organize and regulate coops;

### 4.2.4. Areas for further research

The following can be research agendas for further research intervention

- Explanatory research to identify the relationship between factors of concern in this study;

- Further detailed study to come up with the recommendations to address the problem of leadership incompetence in the coop union as one of the major factors affecting managerial effectiveness;

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