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THE EFFECT OF CORPORATE GOVERNANCE AND DEMOCRATIC PRACTICES ON THE SUSTAINABLE GROWTH OF COOPERATIVE SOCIETIES IN NORTHERN NIGERIA

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Abstract
Cooperatives by theirs nature are democratic organizations. As such, their activities are controlled by their members who actively participate in the decision-making process of the society. Unlike limited liability companies where members voting powers are closely related to the amount of shareholding, cooperative society members have equal voting rights irrespective of wealth status. This study examined the effect of leadership and democratic practices on the growth of cooperative societies. Twenty (20) cooperative societies in Kaduna and its environs were sampled for the studies. Questionnaires were administered while interviews were conducted to clarify information earlier obtained. The study found that the unique advantage of cooperative equality achieved through the "one member one vote" principle provide members with feelings of security. This in turn attracts new members and facilitates growth. However, the authors discovered high rate of bad corporate governance practices amongst the management members of corporative societies. This in turn have a negative effect on sustainable growth of the societies. The study recommends the compliance of cooperative societies with good corporate governance practices and adherence to cooperative principles.

Keywords: Cooperative equality, Democratic control, Corporate governance and Stewardship

Background to the Study
Corporative societies are playing an important role in the delivery of financial and other services to their members. Corporate governance and sustainable growth are products of similar history and parentage. They both emerged in the late 1980s, with similar features and potentials (Kent and Parta 2005). However, they assumed popularity in academic and professional discourse by the Mid-1990s. This was when scholars showed renewed interest in the role of co-operatives in enhancing the social status of members.

Over the past two decades, co-operative societies have experienced tremendous growth all over the world, with many members benefitting from co-operative services. Inspite of this, co-operative societies have not received all the attention they deserve. One category of co-operatives that have been part of this phenomenal growth is the credit Unions. As at 2006, credit Unions were reported to be 31, 725 in Africa (Woccu statistics, 2006). The importance of co-operative societies is increasingly gaining recognition by academics and the general public.

Corporate governance appears to be much more complex in co-operative structures, compared to classical firms, due to their democratic principles in decision-making process, and also because of their ownership structure which is much more diffuse. This makes corporate governance a sensitive issue, especially when growth dynamics is taken into consideration. This study seeks to examine the effect of governance and democratic practices on the sustainable growth of cooperative societies in Nigeria.

Research Objective

To investigate the effect of corporate Governance and democratic practices on the sustainable growth of cooperative societies in Northern Nigeria.

Specifically, the study seeks to:

1. Establish the influence of corporate governance practices on the sustainability of cooperative societies in Northern Nigeria and
2. Determine the effects of democratic practices on the sustainability of cooperative societies in Northern Nigeria.

Research Hypothesis

H1: There is a good corporate governance practices and the sustainable growth of cooperative societies in Northern Nigeria.

H2: There is good corporate governance practices and the sustainable growth of cooperative societies in Northern Nigeria.

Sustainability and Corporate Governance

Sustainable development is an open-ended process. It is not usefully conceived as a particular specified or specifiable target. Pursuit of sustainability is a long-term, indeed never-ending process. The notion of sustainable 'landing places' that is sometimes used by the European Commission is therefore misleading. It suggests that the problem of sustainable development can be 'solved' whereas in reality only specific issues can be resolved and managed. There always will be 'problems' and needs for change (Rammel and van den Bergh, 21003; Sartorius, 2003).

Implementing a commitment to sustainable development entails a substantial transition not just to a broader understanding and a more ambitious set of objectives, but also to more coherently interrelated institutional structures and processes of planning, administration, markets, tradition and choice at every scale (Gibson, 2001); Parto and Doloreux, 2003). Clearly, this is not a transition that can be accomplished quickly or easily. The challenge is to show how such a transition can be accomplished and to develop a core set of tools that would make governance for sustainability manageable.

Like sustainable development, corporate governance is a concept that was first widely explored and embraced in the late 1980's. Also, like sustainable development it was attractive because it encompassed a broad set of factors that were increasingly important and insufficiently recognized in conventional thinking and because it encouraged a more integrated understanding of how these factors were, or should be, linked. Governance scholars viewed the political system as a complex of formal and informal arrangements that were ill-defined and unstable. This was in direct contrast to the conventional view of governments as formal, clearly identifiable, and static entities. Whereas government conjured up an image of formal structures ruling over people, the notion of governance highlighted the increasingly important role of formal and informal arrangements in the political economy (Branch and Baker, 1998).

Corporate Governance, understood as a mode of social coordination, is different from governing; which is an act, a purposeful effort to steer, guide, control and manage (sectors or facets of) society (Kooiman, 1993, P.2). Governance is how one gets to act, through what types of interactions (deliberation, negotiation, self-regulation or authoritative choice) and the extent to which actors adhere to collective decisions. It involves the level and scope of political allocation, the dominant orientation of state, and other institutions and their interactions. Governance structures organize negotiation processes, determine objectives, influence motivations, set standards, perform allocation functions, monitor compliance, impose penalties, initiate and / or reduce conflict, and resolve disputes among actors (Eden and Hampson 1997, p. 362). the effective exercise of power is through a network of interconnected actors, in which all actors hold power, through knowledge resources, money and rights granted to them.

Corporate Governance has been defined and used in many ways in different contexts. Often the concept is given normative as well as descriptive weight. Sometimes, for example in the OECD's and World Bank's usage, it is adopted to serve the neo-liberal agenda of reducing the role of governments in favour of market mechanisms and corporate interest (OECD, 1995, World Bank, 1992). Often it is presented as a means of serving democratic pluralism- defined as the structured ways and means in which the divergent preferences of inter-dependent actors are translated into policy choices to allocate values, so that the plurality of interests is transformed into coordinated action and the compliance of actors is achieved (Eising and Kohler-Koch, 2000, P.5).

Better governance is a prerequisite for, and probably also a product of, steps towards sustainability. Much is expected from 'good governance'. According to the European Commission, good governance consist of openness and participation, accountability, effective coherence, efficiency (proportionality) and greater sensitivity to the immediate context that is promised by subsidiary (Adams, 1999)..

Specific Corporate Governance issues in Cooperatives Credit Societies

When reviewing the relevant literature, four types of conflicts seem to sum the main governance issues we should consider here. By far, the first two are the most essential ones, whereas the third and the fourth are present but less crucial.

First, there is the “moral hazard” conflict between “net borrowers” and “net savers”. In a typical cooperative society, some clients have more loans than savings, while others are in the exact opposite situation; this is what makes them “net borrowers” or “net savers”. In credit societies and as such, they all have the same right to influence the management of the structure through the one person-one vote system. (Branch and Baker 1998).

Second, there is the conflict between owners and managers. for some authors, based on research conducted in Columbia, this is the most important conflict credit societies face (Fisher, Desrochers, 2002). It is the classical principal-agent agency theory case, where the whole debate is to identify how members can assure that managers will make decisions aligned with their best interest (Branch and Evans, 1999)..

Third, there is the conflict between the members and their elected management committee. “Management are democratically elected by membership (one person, one vote) but they may remain beholden to individual members who have mobilized votes on their behalf” (Rock, Otero, Saltzman, 1998). Additionally, as suggested by Chao-Beroff and her- co-authors, “The classic governance problem experienced by mutualism system occurs at several levels due to the diluted ownership of the cooperative structure which can encourage elected committee members to promote their own interest rather than those of the members” (Chao-Beroff et al, 2000). This is even more of an issue when communication becomes a problem. In research conducted in Mali, Wampfler and Mercoiret studied a case where, because information did not flow properly between the members and their elected representatives, power tended to be monopolized by a few individuals (Wamplfler, Mercoriet, 2002).

Fourth, there is the conflict between (paid) employees and volunteers. This is a typical problem of balance that many third sector nonprofit organizations face. When they start, credit societies often work with volunteers who understand their work as part of a personal commitment in a collective project which makes sense for their community. Later, when the structure becomes bigger, it is often necessary to recruit some employees. These people often have a higher education (in order to be able to handle the more complex business of the credit society, but a different type of vision. At that stage, it is essential to properly redefine everyone's job (Westley and Shaffer, 1997).

Of course, the four types of conflicts that we just described are not the only ones that are be found when studying the relationship between all the stakeholders linked to credit society development. But they sum up reasonably well the most frequent ones from a general point of view.

Methods and Materials

The study was carried out in Northern states of Kaduna, Niger, Kano and Plateau. The area had a population of over 15 million according to NPC (2006). These four states are the most densely populated states in Northern Nigeria. The choice of these states was because of intense cooperative and business activities in the area. There is also high level of socio-cultural homogeneity in the study area as the tempo of activities is heightened by various tribes known for hard work.

For the purpose of data collection, questionnaires were administered. The questionnaire was designed mainly based on a likert's scale of five ordinary measures from (1) to (5) according to the level of importance. A total number of 209 questionnaires were sent out while 180 were completed and successfully retuned.

Results and Discussions

Good corporate governance and democratic practices are important sign post in explaining the leadership practices of cooperative societies. This in turn have great consequences on the sustainable growth of Cooperative societies.

Table 1: Contingency Table of X^2 Chi-square

Obs	Exp	0-E	$\frac{(O-E)^2}{E}$
40	100	(60)	36
150	100	50	25
160	100	60	36
100	100	0	0
20	100	(80)	64
130	100	30	9
140	80	60	45
30	80	(50)	31.25
20	80	(60)	45
80	80	0	0
160	80	80	80
50	80	(30)	1 1.25 $X^2 = 382.5$

Where : Obs = Observed values
Exp = Expected valued from observations
0 – E = Difference between observed and expected values

$\frac{(0 - E)^2}{E}$ = Chi square formula

Decision Rule: When calculated value is greater than critical value (chi squared table value) reject H0 and vice versa.

Df = Degrees of freedom
X = Significant level
X2 at df5, æ 0.05 = 11.07
X2 at df5, æ 0.07 = 15.0

Results in table 1 above, confirm severe poor cooperate governance practices. The calculated chi-square value (X2) is 382.5 while the table value at df5 and significant level of 1% (15.09) is also far less than the calculated values.

The implication of this is that there exist high rate of insider abuses, and other forms or unprofessional practices. These negative practices have significant consequence on the performance of the Cooperative Societies.

This picture sad as it is confirms the assertion of Ogubunka (2010) when he opined that professionalism in the credit union is at unacceptable level. Many practitioners lack the requisite professional knowledge and skills to accomplish the desirable tasks. Where the knowledge exist, it is not being professionally practiced. Incompetence and deliberate violation of professional codes persist in the sector with impunity. This situation accounts for the lack of sustainable growth of some cooperative societies.

Table 2: Respondents Observed value

	Yes	No	Total
GCG	40	140	180
HIS	100	80	180
HIA	150	30	180
Total	290	250	540

Source: Authors' Filed Survey

Contingency (Table 3) of Chi square

Obs	Exp	0-E	$\frac{(O-E)^2}{E}$
40	96.67	(56.67)	33.22
100	96.67	3.33	0.11
150	96.67	53.33	29.42
140	83.33	56.67	38.54
80	83.33	(3.33)	0.13
30	83.33	(53.33)	34.13 X^2 = 135.55

Where:GCG= Good Corporate Governance
HIS=High Internal Supervision
HIA =Higher Insider Abuse

X2 at df2, æ 0.05 = 5.00
X2 sat df2, æ 0.07 = 9.21

From table 2 and 3 above, it is clear that good cooperate practices expected from management of cooperatives is lacking, just as there is severe weaknesses in internal controls and supervision. The calculated chi-square value of 135.55 is greater than the table value of 5.99 at df2, and significant level of 5%. At 1% the chi-square table value is 9.21. both table values are less than the calculated value, hence we reject the null hypothesis (H0), thereby accepting H1 which state that:
"There are no good corporate governance practices in cooperative societies".
This result is in line with the view expressed in the literature. This also confirms that despite democratic practices there are still bad leadership practices in cooperative Societies which have negative consequences on their sustainable growth.

Conclusion

Cooperative societies are democratic organizations controlled by members. The members also actively participate in establishing policies and decision-making. In primary societies members have equal voting rights. In fact, democratic member control is the most important cooperative principle. The principle is hinged on the fact that cooperatives are not association of capital but association of men (and women) who are indeed equal. They should therefore have equal voice. This study concludes that democratic control reduces apathy in cooperative societies and encourages active participation by members. It is also our position that good corporate governance practices which promote transparency and accountability are essential ingredients for sustainable growth of cooperative societies. Leaders of cooperative societies are encouraged to adopt best leadership practices of honesty and objectivity.

Recommendations

From the findings of this study, the following steps are essential to ensure sustainable growth of cooperative societies:

1. Strict adherence to the principles of 'one member one vote' by co-operative societies.
2. The Directors of co-operatives in various states should sanction co-operative societies who engage in illegal activities.
3. The cooperative societies should 'vote out' corrupt and dishonest management members.
4. Leaders of cooperative societies should adopt strategies that encourage team cohesion, such as wearing of uniform (vests) at general meetings.
5. Member and stakeholders should be motivated through awards and social gatherings that will promote the development cooperative attitude.

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