

Kyazze, Lawrence Musiitwa; Nkote, Isaac Nabeta; Wakaisuka-Isingoma, Juliet

## Article

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\*Corresponding author: Lawrence Musiitwa Kyazze, Department of Entrepreneurship, Makerere University Business School, P.O. Box 1337, Kampala, Uganda  
E-mail: [lkyazze@mubs.ac.ug](mailto:lkyazze@mubs.ac.ug)

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## ACCOUNTING, CORPORATE GOVERNANCE & BUSINESS ETHICS | RESEARCH ARTICLE

# Cooperative governance and social performance of cooperative societies

Lawrence Musiitwa Kyazze<sup>1\*</sup>, Isaac Nabeta Nkote<sup>2</sup> and Juliet Wakaisuka-Isingoma<sup>3</sup>

**Abstract:** The purpose of the study was to examine the relationship between cooperative governance and non-financial performance of cooperative societies in Uganda. The study used cross-sectional design and data were collected from 293 cooperative societies in Uganda. Confirmatory factor analysis and structural equation modeling were used to develop measurement model and test statistical modeling. The findings revealed a significant and positive relationship between monitoring rights and social performance. Besides, there was also a significant and positive relationship between innovation and social performance. However, the relationship between ratification of management decisions and social performance, and policy compliance and social performance was not statistically significant. Overall, cooperative governance was a good predictor of social performance. The paper contributes to the literature by identifying predictors of social performance in cooperative societies from a developing country perspective.

**Subjects:** Social Sciences; Development Studies; Development Policy; Economics, Finance, Business & Industry

**Keywords:** cooperative governance; social performance; ratifying decisions; Uganda

### ABOUT THE AUTHORS

Lawrence Musiitwa Kyazze (PhD) holds an executive MBA degree in Entrepreneurship, BSc degree in Business Administration, and diploma in Cooperative Administration. He is currently a lecturer at Makerere University Business School, P.O. Box 1337, Kampala, Uganda.

Isaac Nabeta Nkote is a PhD holder and dean in the faculty of Commerce, Makerere University Business School, P.O. Box 1337, Kampala, Uganda.

Juliet Wakaisuka-Isingoma (PhD) is a lecturer at Makerere University Business School, P.O. Box 1337, Kampala, Uganda.

### PUBLIC INTEREST STATEMENT

A cooperative society is an organization formed by a group of people who come together voluntarily to fulfill their economic and social needs through democratically controlled systems. This provides opportunity for cooperatives to address members' well-being. Cooperators are based on the values of community, people before capital, self-help, mutuality, democracy, quality services, and stewardship and social responsibility that lead to economic power and better environment worldwide. The absence of cooperative organizations in communities becomes challenging which creates constraints that debar development. The present study examined the relationship between cooperative governance and social performance in cooperative societies to enhance development. It showed that social performance promotes trust, dependability, and loyalty with interaction between members and executive management and among the general membership. Therefore, low economic levels can be minimized, quality education could be acquired, and general welfare could be achieved which reflect a developing world.

## 1. Introduction

Social performance within the context of cooperative societies is related to achieving effective translation of cooperative social mission (Hansmann & Kraakman, 2001). This includes members' interests, caring for others, and the general welfare of the community. The main concern of social performance measures is to ensure that social goals of cooperative societies are accomplished (Ntayi, Luganda, & Nkote-Nabeta, 2014). Indeed, social performance has recently attracted attention of Microfinance scholars as evidenced by Waithaka (2013). The roots to investigate social performance are a recent development, which focus on profitability since cooperative societies are assumed to help the poor, especially in developing countries (Ebneeth & Theuvsen, 2005). Mainly, it is an understanding by the policy-makers and scholars that intentional inclusion of a social focus in community programs needs to exist (Waithaka, 2013). Not only is there a dearth of understanding in microfinance literature, more is even observed in cooperative society studies. This study considers cooperative governance structure and its relationship with social performance in an attempt to redress the research gap. Available literature indicates that ratification of management decisions, cooperative structure, monitoring rights, and innovation can be significant for cooperatives in developing countries including Uganda (Ruben & Heras, 2012; Teodosio, 2009).

The compensation between business ownership and management issues of governance arises from aligning interests of the parties, motivation, and information asymmetry. The main function of cooperative mechanisms is to ensure that the executive pursues the goals determined either by owners or by those responsible for strategic decisions, and not their own goals (Djankov, Qian, Roland, & Zhuravskaya, 2007). Therefore, individuals in charge of preparing and conducting strategic issues shall monitor the behavior of those who oversee operation in cooperatives represented by the board of directors to ensure that there is transparency in information and accountability.

There have been attempts by several scholars to link cooperative governance with social performance (see e.g. Gardberg & Fombrun, 2006; Godfrey, 2005; Lo & Sheu, 2007; Perrini, 2006; Porter & Kramer, 2006). In addition, operative members expect to obtain advantages from the collective ownership, savings, accountability, and therefore social performance. Members should be committed to make regular savings, market their produce, and purchase their inputs through the cooperatives (Thyfault, 1996). These commitments are fundamentally based on mutual trust and reciprocity among members. Thus, the performance of cooperatives depends on their ability to establish and maintain trust, provide quality services, and social responsibility among members (Ruben & Heras, 2012). Aguilera, Rupp, Williams, and Ganapathi (2007) find that there are increasing numbers of cooperatives engaging in activities that demonstrate social responsibility. Therefore, social performance comprises the idea that a cooperative should involve itself in more than just an economic role in society and should not only take responsibility for its economic actions, but also accept a wider ethical responsibility for the impacts it has on the society and on the environment in which it operates (Carroll, 1999; Ketola, 2006). Cooperatives should have a model for bringing together people across all spheres of society in common economic and social interests, accountable for their actions in society (Edward & Willmott, 2008).

### 1.1. Cooperative governance and social performance

Cooperatives are superior forms of organizations with noble mission and high purposes (International Cooperative Alliance [ICA], 1995) striving to create a higher social order and cooperative common wealth (Karthikeyan, 2013). Social performance has, at its score, the idea that organizations should involve themselves in more than just an economic role in society and should not only take responsibility for its economic actions, but also accept a wider ethical responsibility for the impacts it has on the society and on the environment in which it functions (Ketola, 2006). It embraces that organizations should be answerable for their engagements in society (Edward & Willmott, 2008). Recent contributions highlight the positive impact of social performance on future firm performance for the shareholders and other stakeholders (Eccles, Ioannou, & Serafeim, 2014; Luo, Wang, Raithel, & Zheng, 2015). Despite the importance of social performance, there is still little international evidence

on its drivers to society (Moser & Martin, 2012). Broadly, comprehensive work on the social performance of cooperatives through social statements approach is scarce (Karthikeyan, 2013).

Scholars have identified the variance in socially responsible governance behavior across countries and have highlighted the need for understanding why this is the case (Campbell, 2007) by focusing on the important role of social performance. Modern business organizations are embedded within broader social structures that are comprised of economic and political institutions that exert great influence on their behavior (Campbell, 2007). In addition, good governance practices are regarded as important in reducing risk for investors, attracting investment capital, and improving the performance of organizations, especially in the developing economies (Wakaisuka-Isingoma, Aduda, Wainaina, & Iraya, 2016). Furthermore, corporate governance reforms that have been embarked upon in sub-Saharan Africa have placed particular importance on improving its organizational practices for all corporate stakeholders (Mangena & Chamisa, 2008; Ntim, Opong, & Danbolt, 2012; Ntim, Opong, Danbolt, & Thomas, 2012). Past research has shown influence of the issue of social performance through the lens of corporate financial performance (Margolis, Elfenbein, & Walsh, 2007; Rowley & Berman, 2000; Walsh, Weber, & Margolis, 2003), organizational governance, and social performance (Etapé-Dubreuil & Torreguitart-Mirada, 2015) and yet less attention on monitoring rights, ratification of management decisions, innovations, and policy compliance.

It is against this setting that this paper aims at contributing to cooperative society literature by identifying predictors of social performance from a developing country perspective. There have been calls for more theoretical and empirical investigations into the factors that determine social performance in cooperatives (Ioannou & Serafeim, 2010). Additionally, first, the study augments how monitoring rights, ratification of management decisions, innovations, and policy compliance contribute to social performance of cooperatives. Second, this research guides stakeholders in cooperatives and public sectors to take on leading roles and responsibilities for the existence and sustainability of cooperative societies in general. Third, equally, the study creates an outreach and provides an in-depth analysis of the operations of cooperative societies since they offer joint marketing services, and SACCOS provides financial services which are limited in many communities in rural and urban areas. The rest of the paper is organized as follows: theoretical literature review, empirical literature review, and hypotheses development, research design, empirical results and discussion, and finally, the summary and conclusion.

## 2. Literature review

### 2.1. Theoretical literature review

In this study, the relationship between corporate governance and social performance is examined employing agency theory (Jensen & Meckling, 1976). Agency theory explains how the relationship between the principals and agents can be maximized. Principals delegate the running of the business to the committee members who are the shareholders' agents (Clarke, 2004). Daily, Dalton, and Canella (2003) argued that there are only two factors that influence the prominence of the agency theory. First, the theory is conceptually simple and reduces the cooperation into two participants: managers and shareholders. Second, agency theory suggests that employees or managers in an organization can have self-interests and goals (Haslinda & Valentine, 2009). In the agency theory, the shareholders expect the agents to act or work and make decisions in the principals' interests, while, on the contrary, the agents may not necessarily or willingly make decisions in the interests of the principals (Jensen & Meckling, 1976). Certainly, what should be noted is that the problem arising from the separation of ownership and control in agency theory has been confirmed by several scholars including Davis, Schoorman, and Donaldson (1997).

Scholars claim that in the agency theory, the agents may succumb to self-interest and opportunistic behavior, therefore falling short in achieving the principals' goals and needs. However, what is noted is that the agency theory was introduced basically as a separation of monitoring, ownership structures, and control (Bhimani, 2008). From the agency theory perspective, insight can be offered

into how obtaining control of critical resources offers better social performance. This study therefore applies agency theory to explain social performance in cooperatives. While the governance prescription of agency is to design controls that enforce compliance (Nkundabanyanga, 2016), the ability of organization to cope up, survive, grow, and maintain business success is related to the monitoring rights, ratification of management decisions, and innovations to accomplish social performance. This is also shared by Haslinda and Valentine (2009) who contended that governance must constitute a goals structure that provides for the needs or goods of the shareholders, which change the monitoring and innovation that enhance social performance. In addition, the hypotheses are highlighted below.

## **2.2. Empirical literature review and hypotheses development**

### **2.2.1. Monitoring rights and social performance**

The epistemology of monitoring concept displays that it is derived from cooperative governance (Dasgupta & Serageldin, 2000). Monitoring rights in cooperatives are the processes of overseeing the activities and operations in a cooperative society. This procedure makes the cooperative members gain confidence that their society is operating and managed for their benefits. Monitoring in cooperative society is predominantly led by the management committee members who are elected at annual general meetings to steer the society to success and to ensure development. The management committee has observing tasks such as being responsible for perpetuating their excellence, organizing and handling its own operations while the management committee's actions must be for team-building and to satisfy members' needs. Therefore, the presence of social performance in cooperatives brings about membership satisfaction and membership growth (Ben-Ner & Van Hoomissen, 1991; Hansmann & Kraakman, 2001).

Good cooperative governance leads to effective monitoring of activities of a society which enhances social performance (Djankov et al., 2007). Cooperative governance regulates the relationship between members of cooperatives and committee representatives of the members. In this regard, control and supervision by committee members shall set a monitoring mechanism to assess the performance of cooperative societies since monitoring and control of managerial actions is a key aspect of cooperative governance. Therefore, accommodating the interests involved, streamlining differences between expectations of groups of owners, and guiding and monitoring the managers are the main concerns of governance in organizations. A well-developed system of governance leads to more transparent relations, reducing several risks and improving security in the system of the organizations. The preceding discussion leads to the following hypothesis.

H1: There is a statistically significant and positive relationship between monitoring rights and social performance.

### **2.2.2. Ratification of management decisions and social performance**

Ratification of management decisions includes resolutions that have been implemented prior to the general meeting. The ratification process brings about self-assurance of the society members that their management holds wide consultations and cares for the members (Dasgupta & Serageldin, 2000).

In addition, the sequence of ratification provides opportunities to the executive management to explain why timely approval is necessary to the members. For example, in the case of buying agricultural inputs ahead of a rainy season, the executive committee makes decisions to buy agricultural inputs and later at the general meeting seeks for approval from the members. These new approaches in businesses help members to appreciate the services rendered that accordingly promote social performance. Consequently, the executive committee retains formal ratification and monitoring rights which are very crucial for social performance (Gianviti, 2005). Therefore, foregoing discussion leads to the following hypothesis.

H<sub>2</sub>: There is a statistically significant and positive relationship between Ratification of management decisions and social performance.

### 2.2.3. *Innovation and social performance*

Innovation services to members are extended in a state-of-the-art that promotes social responsibility and quality services. The purpose of being innovative is to bring new methods of delivering services to members such as offering inputs, loans, and repayments that are en-routed through mobile transactions. Cooperative enterprises have a policy framework that encourages employees and members to be innovative and creative by producing or making something new to promote social responsibility within the society. That intrapreneurial approach helps societies extend quality services to the members. Before innovation is conducted, research and development is paramount to ensure that what is being proposed is dependable and is acceptable by the members. Cooperative societies, particularly SACCOS, have supervisory sub-committees elected at the annual general meeting to examine or audit and evaluate the new innovations in action.

In the same regard, Birchall (2003) and ICA (1995) argue that with proper governance systems like innovations, cooperatives continue to be an important means that have been able to achieve economic security and acceptable standards of living.

The entrepreneur paradigm can be traced back to Schumpeter (1934) who first attempted to establish a linkage between entrepreneurs and innovation in theory, and viewed the entrepreneur as innovator. He maintained that innovation contributes to the growth of the economy because entrepreneurs produce innovations. The creation adds value to the individual and the community, and is based upon perceiving and capturing an opportunity that enhances social performance (Johnson, Daily, & Ellstrand, 1996). Bygrave and Timmons (1992) (in Legge & Hindle, 1997) held similar views. They regarded innovation as a change of state, a dynamic process, and a unique event by which the cooperative society could succeed. As Herbig, Golden, and Dunphy (1994) observed, innovation requires the infrastructure, the capital, and the entrepreneurial capacity leading to social performance. Consequently, the above-mentioned discussion directs to the following hypothesis.

H<sub>3</sub>: There is a statistically significant and positive relationship between innovation and social performance.

### 2.2.4. *Policy compliance and social performance*

Cooperatives need a supportive policy framework to be sustainable in developing economies since it creates a large and vibrant cooperative sector (Mwanja, Marangu, Wanjere, Kuria, & Thuo, 2014). They further add that it is not known how non-compliance with the bylaws and other policies affects performance. The committee should therefore be inventive in devising policies and practices that can provide vital support for effective social performance. To this support, Kobia (2011) observes that governance guidelines in cooperatives include: authority and duties of cooperative members as shareholders, role/function and responsibilities of the management committee, values and strategies, cooperative communication, and monitoring performance of management committee. In addition, Mwanja et al. (2014) content that policy compliance can play a pivotal role in paving the way for the development of an independent cooperative movement.

Additionally, policy compliance brings about guidelines that are followed when making decisions for the well-being of the members, and ensures that the utilization of society funds is compliant with the policies set in the society. Policy adjustment helps in introducing new methods of offering quality services to members (Kobia, 2011). Cooperatives continue to cope with the high cost of achieving and sustaining compliance with a variety of regulations whereby executive committees are considering new ways to reduce costs, strengthen decision-making capabilities, and therefore improve social performance (KPGM, 2008). Many have found that a strong governance, risk, and compliance discipline can enable cooperators to integrate inefficient, isolated processes and systems into effective and efficient cooperative societies.



To further drive value, cooperatives are implementing controls with monitoring tools that can help them align strategic initiatives which serve as documentation sources, and support ongoing compliance, monitoring and reporting, and thus promote social performance. According to Kipanga (2007), cooperatives should integrate compliance- and business-control requirements into a single control framework to achieve social performance. In this regard, for many cooperatives, however, the propagation of regulation in recent years has prompted a much greater focus on compliance and the integrity of controls. Therefore, economic pressures are prompting cooperatives to address these challenges, specifically by leveraging compliance investments to improve social performance. The above discussion therefore leads to the following hypothesis.

$H_4$ : There is a statistically significant and positive relationship between policy compliance and social performance.

### 3. Methodology

#### 3.1. Research design and study sample

We employ a cross-sectional study research design which is correlational in nature. The study utilizes 293 responses from a population of 4,895 cooperative societies (Uganda Cooperative Alliance, 2012/2013; Uganda Cooperative Savings and Credit Union, and Bank of Uganda, 2013; Uganda Registrar of Cooperatives, 2013). The sample size was determined using Yamane's (1973) sample selection approach. The cooperative societies were randomly selected and proportionately calculated from the different strata (see Table 1). Broadly, about 90% of the respondents are literate and 46% have postgraduate education (diplomas and degrees). This implies that majority of the respondents could apprehend to the questions and therefore provide knowledgeable responses to the study questions. More than half of the respondents are above 39 years of age which corroborates the qualification that would normally have been acquired in Uganda by such an age bracket. Out of 293 respondent cooperative societies, 184 (about 62.8% response rate) are savings and credit cooperative societies (SACCOS), agricultural marketing societies were 68 (23.2%), and other types of cooperatives were 41 (14%). This implies that different types of cooperatives are inclusive in the study and therefore giving different experiences. The regional distributions of responses were central 159 (54.3%), western 76 (25%), eastern 33 (11.3%), and northern 25 (8.5%). This suggests that the main regions of the country were covered and therefore the generalizations of the findings would be appropriate.

#### 3.2. Questionnaire and variables' measurement

##### 3.2.1. Questionnaire

Data were collected using questionnaires method which is quite common, mostly in the case of big inquiry (Kothari, 2003). The process of questionnaire development for this study followed the most commonly used steps of questionnaire construction by Sekaran (2000) and Sarantakos (1998). The questionnaires were anchored on a five-point Likert scale that ranged from 5 (Strongly Agree) to 1 (Strongly Disagree). The anchored scale design was intended to measure the opinion of a

**Table 1. Sample selection table**

Types of cooperatives	Population	Sample	Percent
Savings and credit cooperative society (SACCO)	3,074	184	62.80
Agricultural marketing cooperatives	1,136	68	23.20
Dairy cooperatives	50	3	1.00
Area cooperative enterprise	200	12	4.10
Bee keeping cooperatives (Apiaries)	117	7	2.40
Fishing cooperatives	100	6	2.10
Multi-purpose cooperatives	218	13	4.40
Total	4,895	293	100.00

**Table 2. Operationalization of research variables**

Variables	Measures	Definitions	Sources
Cooperative governance	Monitoring rights	A person who has powers to warn/caution and has right to oversee	Katzenbach (1998), Lang and Roessl (2011), Van der Westhuizen (1991), and Davidoff and Lazarus (2002, p. 109)
	Ratification of management decisions	To approve and sanction formally and confirm what has been done or decided	Siciliano (2005) and Minishi (2012)
	Innovation	The transformation of creative ideas into useful applications by combining resources in new or unusual ways to provide value to society for new or improved products, technology, or services	Holt (2005) and Hisrich et al. (2005)
Social performance of cooperative society	Social responsibility	Social performance emerges from the belief that social, environmental, ethical, and geopolitical factors materially impact the ability of an enterprise to perform favorably	Bititci et al. (2004), Hoque and James(2000), Davis and Albright(2004), Neely, Kennerley, and Martinez (2004), and Ittner, Larcker, and Randall (2003)
		Social responsibility is an ethical framework and suggests that an entity, be it an organization or individual, has an obligation to act for the benefit of society at large. Social responsibility is a duty every individual has to perform so as to maintain a balance between the economy and the ecosystems (Palmer, 2012)	Bonnie and de Waal (2004), Kaplan and Norton (1996), Drucker (1992, 1993, 1994), Reichheld (1996), Palmer (2012), and Kenzelmann (2008)
	Quality services	From the viewpoint of business administration, service quality is an achievement in customer service. It reflects at each service encounter. Customers form service expectations from past experiences, word of mouth, and marketing communications. In general, customers compare perceived service with expected service, and which if the former falls short of the latter, the customers are disappointed (Kenzelmann, 2008)	

respondent (Burns & Grove, 2003), to obtain self-reported information on cooperative governance and social performance. Validity of questionnaires is established using content validity index to determine the relevance of the questions in measuring the variables. Equally, the reliability of the questionnaires is tested using Cronbach's  $\alpha$  coefficient as recommended by Nunnally (1978). The Cronbach's  $\alpha$  coefficient results computed should be  $\geq .7$ . All items displayed Cronbach's  $\alpha$  coefficient greater than .7, implying that all items prompted internal consistency.

### 3.2.2. Variables' operationalization

We operationalized cooperative governance by monitoring rights, ratification of management decisions, innovation, and policy compliance (Hisrich, Peters, & Shepherd, 2005; Lang & Roessl, 2011; Minishi, 2012). We equally measured social performance using social responsibility and quality services (Bititci, Mendibil, Nudurupati, Turner, & Garengo, 2004; Hoque & James, 2000)—See Table 2. Parametric tests were verified and displayed that all variables conformed to the ordinary least square assumptions—normality, multi-collinearity, homogeneity, and linearity (Field, 2009).

## 4. Results and discussion

We create means and standard deviations of global variables in order to summarize the observed data. According to Field (2009), means illustrate a summary of data and standard deviation displays how well the means represent the data (see Table 3). All mean scores and standard deviation range between 3.95 and 3.96 and .57 and .66, respectively. This implies that data points are close to means and therefore calculated means highly represent the observed data (Field, 2009). At the same, correlation was conducted. Correlation results reveal that all the hypotheses are positive and



**Table 3. Descriptive statistics**

Variable	N	Minimum	Maximum	Mean		Std. deviation	Variance
	Statistic	Statistic	Statistic	Statistic	Std. error	Statistic	Statistic
Cooperative governance	293	2.00	5.00	3.9539	.03323	.56878	.324
Social performance	293	1.50	5.00	3.9578	.03853	.65948	.435

**Table 4. Correlations analysis**

Study variables	1	2	3	4	5	6
Ratification of management decisions (1)	1					
Monitoring rights (2)	.688*	1				
Innovation (3)	.638*	.726*	1			
Policy compliancy (4)	.645*	.709*	.675*	1		
Cooperative governance (5)	.578*	.608*	.559*	.551*	1	
Social performance (6)	.544*	.603*	.647*	.600*	.671*	1

\*Correlation is significant at the .01 level (two-tailed).

significant: monitoring rights and social performance (.603\*), ratification of management decisions and social performance (.544\*), innovation and social performance (.647\*), policy compliance and social performance (.600\*), and overall cooperative governance and social performance (.671\*). This implies that all the dimensions of cooperative governance are important in predicting social performance (see Table 4).

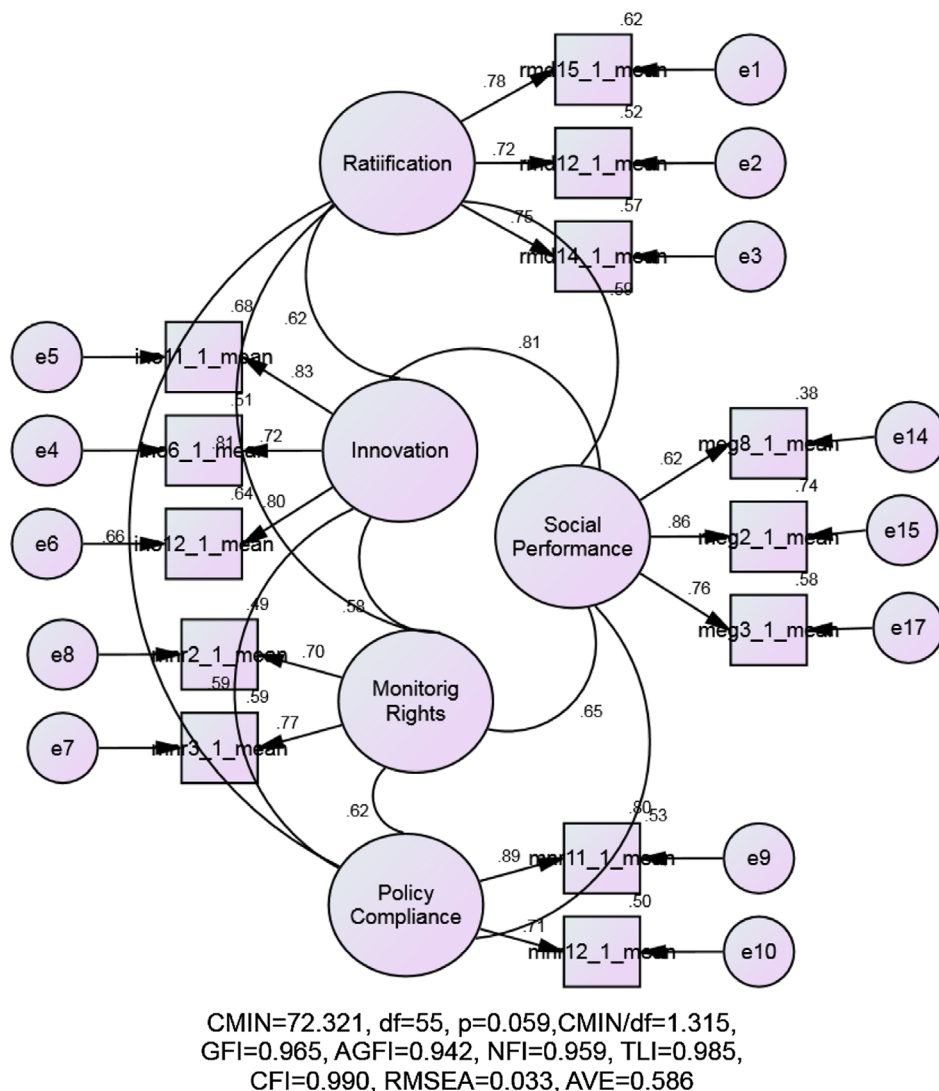
In addition, we equally conducted an EFA in an attempt to identify items and components that are considered significant in the bringing together of the variables under investigation (Field, 2009). Furthermore, CFA was used to test the number of factors and loadings of measurement items to confirm what is expected on the basis of the theory used. The CFA and SEM were used to further investigate the relationships between the monitoring rights, ratification of management decisions, innovation, policy compliancy, and social performance. SEM is preferred because it addresses the issue of measurement error and simultaneously estimates a system of structural equations. The overall fit indices of cooperative governance to social performance indicate a strong relationship (.72), with  $\chi^2$  72.321; DF = 55; CMIN/df = 1.315;  $p$  = .059; GFI = .965; AGFI = .942; NFI = .959; TLI = .985; CFI = .990; RMSEA = .033 (see Figure 1). This means that the model fits well for social performance of cooperatives since all the indices fulfill all the required benchmarks (Brown, 2006). The results of the different hypotheses using SEM are explained below.

$H_1$  reveals a statistically positive and significant association between monitoring rights and social performance of cooperative societies ( $\beta$  = .367,  $t$ -value = 2.579,  $p$  < .05) as indicated in Table 5. This means an improvement in monitoring rights is related to corresponding improvement in the social performance of cooperative societies, therefore supporting  $H_1$ .

The relationship between ratification management decisions and social performance of cooperative societies reveals that there is no association between ratification of management decisions and social performance of cooperative societies ( $\beta$  = .123,  $t$ -value = .867,  $p$  > .05) as indicated in Table 5, thus failing to support  $H_2$ .

$H_3$  shows the relationship between innovation and social performance. Results confirm that there is a positive and significant relationship between innovation and social performance in cooperative

**Figure 1. Measurement model for cooperative governance–social performance relationship.**



societies ( $\beta = .691$ ,  $t$ -value = 7.629,  $p < .05$ ) as indicated in Table 5. This implies that positive changes in innovativeness are associated with positive changes in social performance, thus supporting  $H_3$ .

The relationship between policy compliance and social performance reveals that there is no relationship between policy compliance and social performance ( $\beta = .021$ ,  $t$ -value = .251,  $p > .05$ ) as indicated in Table 5 and therefore failing to support  $H_4$ .

#### 4.1. Discussion

The results on monitoring rights and social performance suggest that effective monitoring leads to improved social performance in the organizations. This process involves checking and verifying the financial and non-financial transactions in a firm, advance delivery of committee (board) reports as well as ensuring proper utilization of loaned and own funds to shareholders. These are critical cooperative governance viewpoints that affect the social performance of a cooperative society. In the same thinking, Lang and Roessl (2011) and Katzenbach (1998) assert that the procedures and structures used to direct and manage cooperatives are vital for monitoring purposes. Furthermore, Van der Westhuizen and Mosoge (1998) argue that cooperative governance helps organizations use their resources more effectively in the interest of the members and stakeholders through controls established. Therefore, the involvement of executive committee and management in strategic planning

**Table 5. Path coefficients for the SEM**

			Unstandardized estimates	S.E.	t-value	p-value	Label	Standardized estimates
Social performance	←	Monitoring rights (H <sub>1</sub> )	.458	.178	2.579	.010	Par_16	.367
Social performance	←	Ratification of management decisions (H <sub>2</sub> )	-.160	.185	-.867	.386	Par_14	-.123
Social performance	←	Innovation (H <sub>3</sub> )	.819	.107	7.629	***	Par_15	.691
Social performance	←	Policy compliance (H <sub>4</sub> )	-.024	.096	-.251	.802	Par_17	-.021

\*\*\*Significance at  $p \leq 0.05$ .

and examining members' participation and decision-making enhances social responsibility and quality of services (Davidoff & Lazarus, 1997).

In addition, monitoring can be done in the form of clear structures, properly approved procedures, and attachment of impunities sanctions to any wrong found for the benefit of management. Subsequently, monitoring policies provide a clear and concise summary of the procedures and reflect the executive committee and management's due diligence in decision-making thereby reflecting and providing information from the monitoring procedures. Cooperative governance therefore displays the responsibilities of executive committee and management in fulfillment of their obligations, hence promoting social performance.

Findings indicate that ratification of management decisions does not add value to social performance. This could be attributed to the democratic principles used for decision-making and also their ownership that is usually diverse. Broadly, this may be accredited to: first, leadership structure and the organizational setup of the cooperative society do not follow the democratic principles; second, there could be limited advisory or supervisory roles from government and regulatory agencies for cooperatives; and third, the un-democratic needs characterized by cooperatives in the developing economies, where their leaders or officials exercise repressive powers.

The results on innovation and social performance support the view that changes in innovation bring about changes in social performance. Innovation promotes the image of the cooperatives since dynamic structures create a new brand that changes public perception about the organization. This is in line with Holt (2005) who argues that innovation leads to the transformation of creative ideas into useful applications by combining resources that provide value to society for new and improved products, technology, or services. In the same thinking, Hisrich et al. (2005) contend that innovation is the process and outcome of creating something new and of value. It is the combination or synthesis of knowledge and ideas into original, relevant, and valued new products. Therefore, the participation of executive committee and management in innovative strategies enhances social responsibility and quality of services as well as conducting research and development (Davidoff & Lazarus, 1997). In a nutshell, the results confirm that innovation can be done in the form of experimentations that ensure success and dependability of the new ventures. In this regard, the executive committee and management should have a framework of policies that provide a clear and concise summary of the measures in the process of innovation that promotes social performance.

The results on policy compliance and social performance were not supported. This could be majorly attributed to developing economies, Uganda inclusive, where first, the members may not be properly informed of the functionality of the policies. Second, the system established in cooperatives is not well developed with stipulated policies. Third, there exist glaring contradictions in the origin and interpretation of the different policies on cooperatives. Contrary to the findings above, Ruben

and Heras (2012) and Sebhatu (2011) identified policy issues as factors affecting the outreach and sustainability of cooperatives, especially where members take the role of policy compliance as a priority for the organization.

Overall, the results reveal that cooperative governance (monitoring rights and innovation) is significantly related to social performance. The findings suggest that better monitoring controls and innovations can be taken as a substitution to enhance social performance in cooperatives. On the other hand, ratification of management decisions and policy compliance are not significantly related to social performance. Furthermore, since managers of cooperatives have typically acted as agents of the owners, they should continuously hire these managers and give them authority to manage the firm for the owners' benefits, especially in the economies (Wakaisuka-Isingoma et al., 2016).

## 5. Conclusion, implications, and future direction of research

Cooperative governance predicts social performance through monitoring rights and innovation.

Checking and verifying the financial and non-financial transactions in a cooperative, advance delivery of committee (board) reports, and at the same time ensuring proper utilization of loaned and own funds to shareholders are paramount to the performance of a cooperative society. Furthermore, procedures and structures used to direct and manage cooperatives for purposes of monitoring are vital. Therefore, cooperatives should in many cases involve executive committee and management in the strategic planning and examining members' participation and decision-making that promote social performance.

In addition, innovation brings about new ideas and systems that enhance development and equally produce new services and products for the welfare of members. In this regard, the participation of executive committee and management in innovative strategies enhances social performance. Innovation in terms of experiments ensures success and dependability of the new ventures. In this regard, the executive committee and management should have a framework of policies that provide clear and concise summary of the measures in the process of innovation that lead to social performance.

### 5.1. Implications and future direction of research

The findings of this study imply that monitoring rights and innovation are critical indicators of social performance in cooperatives. The cooperators are therefore cautioned not to underestimate the significance of monitoring rights and innovativeness.

Remarkably, a policy implication of strengthening cooperative systems should be emphasized since these are catalysts through which cooperative societies can achieve better performance. Like any other study, there are a number of limitations including: first, the study is cross-sectional which implies that the views held by individuals may vary over the years; second, the non-inclusion of government officials as policy-makers, past members, and non-members could have limited our understanding of social performance from multiple stakeholders prospective. Future research may be needed in other sectors of the economy.

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#### Author details

Lawrence Musiitwa Kyazze<sup>1</sup>

E-mail: [lkyazze@mubs.ac.ug](mailto:lkyazze@mubs.ac.ug)

ORCID ID: <http://orcid.org/0000-0001-7155-5191>

Isaac Nabeta Nkote<sup>2</sup>

E-mail: [inkote@mubs.ac.ug](mailto:inkote@mubs.ac.ug)

Juliet Wakaisuka-Isingoma<sup>3</sup>

E-mail: [jwakaisuka@mubs.ac.ug](mailto:jwakaisuka@mubs.ac.ug)

<sup>1</sup> Department of Entrepreneurship, Makerere University Business School, P.O. Box 1337, Kampala, Uganda.

<sup>2</sup> Faculty of Commerce, Makerere University Business School, P.O. Box 1337, Kampala, Uganda.

<sup>3</sup> Department of Accounting, Makerere University Business School, P.O. Box 1337, Kampala, Uganda.

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