Corporate Governance and Cooperative Societies : A Study of Cooperative Societies in Odisha.

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ABSTRACT

The cooperative movement, in recent times, appears to have started addressing the issue of corporate governance. Sequel to this development, some resources to promote good governance can reasonably be expected within the movement itself. This paper therefore was set out to examine whether lack of transparency is a feature of most cooperative societies, to ascertain whether the executives of cooperative societies show good commitment towards accountability and to assess the significance of members' participation in the democratic process giving room for the emergence of incompetent individuals on the executive and board of cooperatives in Odisha. It was also meant to evaluate the need for cooperative societies to engage in sound internal control and risk management and to investigate whether weak corporate governance is solely responsible for the maladministration of cooperative societies in the State. The source of data was primary and the five hypotheses formulated were tested using descriptive statistics and analysis of variance. Essentially, the study found that the executives of cooperative societies are not committed to transparency and accountability. The principal recommendations of the study are that the executives should demonstrate high level commitment towards the sustainability of cooperative societies and that these societies should embrace the principles of good corporate governance that is capable of fostering total accountability, adequate transparency, sound internal control and full disclosure of their activities.

Keywords : *Cooperative Societies, Corporate Governance, Accountability, Sustainability, Internal Control, Transparency and Disclosure*

Inrtoduction :

Co-operatives are member-owned businesses founded on the International Co-operative Alliance's Statement of Co-operative Identity and agricultural co-operatives have long been among the most successful of these in India in

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general and Odisha in particular. Agricultural co-operatives are legal entities in which farmers work together to achieve some commercial objective that they cannot achieve working independently of each other.

Key to the success of the model is governance. A neglect of governance weakens the framework of accountability and carries multiple risks to the business and its strategy over time. Conversely, good governance supports the board of the co-operative in its task of creating and maintaining a strong and sustainable business.

The financial sector reforms have been initiated in the Indian Banking industry since 1993. Banks have been guided and directed to improve their asset quality, capital adequacy and efficiency in order to improve their productivity and profitability. The Cooperative banks were given a greater amount of time and opportunity to adapt themselves to the new regimen. The PACS however were not subjected to these norms. With the implementation of recommendations of Vaidyanathan committee on STCCS, the prudential norms of Income recognition, asset classification, provisioning and capital adequacy are being made applicable to PACS forthwith. By adopting these norms, the PACS operations will become transparent, reflecting the true picture of the organisation. The future efforts will be to improve efficiency of the systems and operations of the PACS.

PACS are democratic organizations. The PACS are governed as per the provisions of Cooperative Societies Act / Rules and bye-laws of PACS in a democratic manner. The members of PACS are owners of the society. They elect a Committee for providing directions to the affairs of the Society. The Board of PACS in terms of Vaidyanathan Committee Recommendations (VCR) will consist of elected members only. (There will not be any nominated member on the Board of PACS). The elected Members would in turn elect one among themselves as President of the Society. It is the responsibility of the President to direct and run the Society in a proper and constructive manner. Some societies have a Vice President too. In the absence of a President, the Vice President will discharge duties of the President. The General Body is the highest / supreme authority of the society. The Board functions within the boundaries of the bylaws, policy decisions taken by the General Body and as per the provisons of the Cooperative Societies Act /Rules. Important policy decisions are taken by the General Body only. Thus, the President, the Board of Directors and the General Body are the important components of governance structure of PACS. The day-to-day work of the society and also the implementation of the decisions taken by the Board, are carried out by the Secretary of the society, who is also the Chief Executive of the Society.

The Short Term Cooperative Credit Structure (STCCS) in Odisha comprises of 2709 PACS (including 212 LAMPS and 6 FSS) at the grassroots level, 17 District Central Cooperative Banks (with 322 Branches) at the middle tier and Odisha State Cooperative Bank (with 14 Branches) at the apex level. Out of about 55 lakh agricultural families, 53.69 lakh families have been enrolled as members of the PACS taking the coverage to 97.6%.

Impact of the implementation of the revival package in certain areas like :

- ☞ Institutional and legal reforms including amendments to Cooperative Societies Acts, Rules, and Byelaws, thus creating the basis for autonomy to the banks and PACS.
- ☞ Release of recap assistance leading to improve liquidity of PACS which enabled them to re-commence lending and restore cash flow and income streams.
- ☞ The assisted PACS could attain CRAR of 7% after recapitalisation and many of them were able to maintain the same.

Post implementation of the revival package, financial indicators has shown varying degrees of improvement in all the three tiers of CCS. Loans disbursed by PACS, annual average growth and small and marginal farmer coverage was a priority with the CCS and continued to be over 97.6%. The performance of PACS is as detailed below:

Performance of PACS

(Rs. in crore)

Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
1. Own fund	349.01	356.44	429.86	517.68	528.60
2. Deposits	723.94	733.03	817.00	1027.13	1296.15
3. Loans & Advances	1605.34	1648.22	2882.32	3500.76	4542.14
4. Working Capital	2988.07	3396.79	3764.91	5120.97	6181.35
5. Borrowings	2165.82	2057.18	2675.69	3271.70	3927.82
6. Per PACS loan business	0.54	0.58	1.007	1.29	1.67

7. Profit (No. / Amount)	718/9.02	602/35.28	1067/43.10	845/ 39.04	763/ 37.47
8. Loss (No. / Amount)	1966/49.63	2085/77.07	1597/86.96	1864/ 122.57	1943/99.23
9. Recovery percentage	58%	77%	72%	73%	76%

Sourcce : Various Annual Reports of PACS.

WHAT IS CORPORATE GOVERNANCE ?

Basically, corporate governance concerns all the steps taken by the owners of a company to ensure that it produces for them the best possible benefit. One detailed definition of the concept is that used by the OECD, which is available on their website.

The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as, the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the company objectives are set, and means of attaining those objectives and monitoring performance.

Corporate Governance is a simple practice of “just doing things fairly”. As a rational human being each one of us expects good quality product and service, as a fall out of proper governance, in every facet of our life- in politics, in economy in the social and small cultural life. The same practiced in the corporate entity level can be broadly understood as Corporate Governance. If ethical practices and building up long term relationships leading to more profitable outcomes are factored in the Corporate Governance policies of an organization, business growth would be an automatic follow through.

THE CONCEPT

The Corporate Governance as the expression is not capable of being precisely defined but can broadly be understood as denoting direction and control of the affairs of the company. As an inclusive definition it covers the policies and practices adopted by a corporate entity in achieving its objectives in relation to its shareholders. Corporate Governance is not a destination, but a journey to be covered by a commercial entity. The concept has more significance at contextual and operational level rather than conceptual level.

The fundamental objectives of Corporate Governance are the enhancement of the long term values of shareholders and at the same time protecting the interest of other stakeholders. It is a process of constant endeavor to ensure equilibrium amongst all stakeholders, by harmonizing their rights and interest. In essence it stands for effective accountability to all stakeholders. In a normative sense, Corporate Governance is prescribed as a code of corporate conduct in relation to all the stakeholders, external as well as internal.

The Corporate Governance presently in vogue was introduced as a remedial measure for fall out of corporate which was outcome of unethical behavior of management of the company. It is the Cadbury Committee in UK which recommended the Corporate Governance in the form of code of conduct for management for directing and controlling the affaires of the company. It was the point of emergence of the concept of present Corporate Governance.

CORPORATE GOVERNANCE – RESPONSIBILITY OF TOP MANAGEMENT, ESPECIALLY OF BOARD OF DIRECTORS.

The responsibility towards Corporate Governance is exclusively of Board of Directors, and which has to be performed ethically and diligently. Mere drafting of code or framing the rules will not serve the purpose of Corporate Governance. What is needed is sincerely practicing it.

In India, Shri Kumarmangalam Birla Committee appointed by SEBI made very useful recommendations which have been accepted and implemented in form of Listing Agreement Clause–49, in respect of listed companies. Subsequently other committees viz. Nareshchandra Committee, Narayanmurti Committee, also made their vital contribution for the cause.

CARDINALS OR HALLMARKS OF CORPORATE GOVERNANCE:

The cardinal features or hallmarks of Corporate Governance are -

1. Well defined objectives / values of the organization in the form of Vision Statement. The Board of Director should establish strategic objectives and corporate values for itself, senior management, and other employees of the organization and frame policies to achieve them, in clear and unambiguous terms.
2. Endeavour of management for protection of interest and enhancement in long term values of stakeholders and harmonizing their interests.

3. Competent Board of Directors with independent deposition: The board of directors should have clear understanding of their role. They should be free from fear and favour. They should perform diligently with support of various committees, with delegated powers.

4. Accountability and transparency at Board and all operational levels.

5. Effective system of internal control and vigilance mechanism, with prime thrust on internal audit.

6. Remuneration policy consistent with organizational values and objectives.

These factors with high standards constitute pathological tests for good Corporate Governance. Higher the standard, higher is the quality of Corporate Governance.

PRESENT SCENARIO :

Even in spite of introduction and implementation of Corporate Governance, both at national and international level, the hick-ups and scams are not uncommon. Satyam Computers, Global Trust Bank in India, while Enron, Sub-prime crisis in USA, reveal the limitations of the Corporate Governance merely introduced as a regulatory measure.

Barring few honorable exceptions, the Corporate are gratified with its purely technical compliance. But one must be can did enough to admit that Corporate Governance, even though introduced as a regulatory measure has been successful in sensitizing the stakeholders. Various provisions in Company's Act, guidelines issued by SEBI, have made the stakeholders aware of their legitimate rights. Of course, these are only few initial steps of course in the journey in the right direction.

CORPORATE GOVERNANCE: IT'S RELEVANCE WITH CO-OPERATIVES.

THE CO-OPERATIVE IDENTITY:

By definition itself, the Cooperatives are an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations though jointly owned and democratically controlled enterprise. The main object of the co-operative is the economic up-liftment of common man. The distinct feature of co-operatives is the member of co-operative institution has only one vote, irrespective of his shareholding. This regularatory provision differentiates the Cooperatives from Corporate.

The Cooperatives have to operate very much like other businesses. They must serve a market efficiently and effectively. They have to be well managed and they must survive financially. However, there are important distinctions that make Cooperatives unique in nature. For any organization there are three types of persons i.e.(i) the persons who own (owners/investors / share holders), ii)the persons who control (the policy/decision makers/ management) and iii) the persons who use them (the customers). In case of corporate especially large enterprise or multinational, these three are separate and district groups. In a small retail business, for example the first two components are often identical. But users/ customers are separate. However, in Cooperatives all the three come together to form a unity, Those who own, those who control and those who use are One.

In Corporate enterprises , the responsibility and accountability is indirect and difficult to trace. In case of Cooperatives responsibility accountability are direct. The Cooperatives aim at reducing disparities, improving social conditions and ensuring social justice, sustainable growth, and concern for the society.

THE COOPERATIVE VALUES AND PRINCIPLES

The Values of co-operatives viz. Self-help, Self Responsibility, Honesty, Equality Solidarity Openness, Social Responsibility and Caring for Others are the Vision Statements of Co-operatives. Co-operative Values and Principals enunciated in 1925, by the International Co-operative Alliance are Mission Statement for the Co-operatives. The Seven Principles, popularly called as Co-operative Rainbow are:

1. Voluntary & Open Membership
2. Democratic Member Control
3. Members Economic Participation
4. Autonomy & Independence
5. Education, Training & Information
6. Co-operation Among the Co-operatives
7. Concern for the Community

The values and a Principles of co-operatives symbolize the aims and ideas of cooperative movement. The seven colored flag embodies in it cooperative principles. The Cooperatives by their own effort inspired by a sense of fraternity, equity and love of the social justice, strive to remedy the past and create new economic system a system in which capital plays the role of servant instead of master. The object of production is organized self-help instead of profit. The human dignity is given the pride place for achieving a more equitable and efficient economy, social reforms, and more equitable system of democracy.

The cooperatives have very strong foundation of its ethical values and principles which are hallmark of good governance. The principles of Corporate Governance are not alien to cooperatives but they are innate with it. The Corporate Governance in vogue is modern concept of management while Co-operative Governance, for doyens and seers of cooperatives are their "Articles of Faith". Unlike today's Corporate Governance the cooperative governance is not a remedial measure to cure the disease.

In this paper, authors have made an attempt to examine whether lack of transparency is a feature of most cooperative societies, to ascertain whether the executives of cooperative societies show good commitment towards accountability and to assess the significance of members' participation in the democratic process giving room for the emergence of incompetent individuals on the executive and board of cooperatives in Odisha. It was also meant to evaluate the need for cooperative societies to engage in sound internal control and risk management and to investigate whether weak corporate governance is solely responsible for the maladministration of cooperative societies in the State. Primary Agricultural Cooperative Societies (PACS) are being taken into consideration.

ISSUES AT STAKE

Despite the existence of a considerable literature on co-operatives, all too frequently they remain poorly understood institutions (Cuevas & Fischer, 2006). Co-operatives have succeeded in being both familiar and yet little understood for the general public and the academic world alike. There are many reasons for this. All too frequently the co-operative sector has been viewed through the prism of a specific enterprise, institutional form or a single country. Many studies have failed to capture the heterogeneous and diverse nature of co-operatives and downplayed their position as part of a sector with global reach and frequently operating as part of a global movement (Shaw, 2006). The main problems addressed in corporative governance are similar to those faced by the majority of organizations - where there is no one single owner who is also in-charge of executive management. In large organizations, there are managers that are not owners, or there is a plurality of owners with ability to influence and different interests. Cooperatives also feature specific issues associated to their governance (Brasilia, 2008).

Cuevas & Fischer (2006) identify the principal source of failure for Cooperative Financial Institutions (CFIs) as deriving from member/owner conflict with management. The growth of a cooperative inevitably expands (or dilutes) ownership and managers become subject to weaker controls. The development of managerial dominance within the cooperatives has been a strong theme within the literature on non–financial cooperatives as well. An influential model has linked cooperatives to a process of democratic degeneration. Meister (1984) identifies four stages in the internal transformation of democratic organizations into manager-led enterprises. This relates to the growth in size and complexity of the enterprise which enables management to take advantage of growing member apathy and distance from the original core cooperative values.

OBJECTIVES OF THE STUDY

This study is carried out to achieve the following objectives

a) To examine whether lack of transparency is a feature of most PACS.

b) To determine whether the executives of PACS show good commitment towards accountability.

c) To assess the significance of members' participation in the democratic process giving room for the emergence of incompetent individuals on the executive and board of cooperatives.

d) To evaluate the need for cooperative societies to engage in sound internal control and risk management.

e) To investigate whether corporate governance is solely responsible for the maladministration of cooperative societies in Odisha.

2 LITERATURE REVIEW AND THEORETICAL FRAMEWORK

CONCEPTUAL CLARIFICATIONS

A cooperative is a business organization owned and operated by a group of individuals for their mutual benefit (O'Sullivan &Sheffrin, 2003). A cooperative is a business owned and controlled by the people who use its services. They finance and operate the business or service for their mutual benefit. By working together, they can reach an objective that would be unattainable if acting alone. The purpose of the cooperative is to provide greater benefits to the members such as increasing individual income or enhancing a member's way of living by providing important needed services. The cooperative, for instance, may be the vehicle to obtaining improved markets or providing sources of supplies or other services otherwise unavailable if members acted alone (Proceedings Report, 2007). The unique characteristic that differentiates co-operatives from other enterprise structures is its dual nature: they are business enterprises based on a membership- owned model. The associate aspect of a co-operative takes place to pursue the social goals of its members. As such, co-operatives form an integral part of the private sector, pursuing successful commercial business practices based on the values of self-help, self-responsibility, solidarity, and democracy. In relation to other enterprise structures, co-operatives are an alternate way of doing business but at equally profitable levels.(Proceedings Report, 2007)

In Discussion Paper (2004), the vast amount of literature available on the subject ensures that there exist innumerable definitions of corporate governance. To get a fair view on this subject, it would be prudent to give a narrow as well as a broad definition of corporate governance. In a narrow sense, corporate governance involves a set of relationships amongst the company's management, its board of directors, its shareholders, its auditors and other stakeholders. These relationships, which involve various rules and incentives, provide the structure through which the objectives of the company are set, and the means of attaining these objectives as well as monitoring performance are determined. Thus, the key aspects of good corporate governance include transparency of corporate structures and operations; the accountability of managers and the boards to shareholders; and corporate responsibility towards stakeholders. In a broader sense, however, good corporate governance- the extent to which companies is run in an open and honest manner- is important for overall market confidence, the efficiency of capital allocation, the growth and development of countries' industrial bases, and ultimately the nations' overall wealth and welfare. It is important to note that in both the narrow as well as in the broad definitions, the concepts of disclosure and transparency occupy centre-stage. In the first instance, they create trust at the firm level among the suppliers of finance. In the second instance, they create overall confidence at the aggregate economy level. In both cases, they result in efficient allocation of capital.

According to Claessens (2003), corporate governance would include the relationship between shareholders creditors and corporations; between financial markets, institutions and corporations; and between employees and corporations. Corporate governance would also encompass the issue of corporate social responsibility, including such aspects as the dealings of the firm with respect to culture and the environment. One detailed definition of the concept is that used by the OECD, which is available on their website. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as, the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the company objectives are set, and means of attaining those objectives and monitoring performance. Put simply therefore, corporate governance concerns all the institutional structures that help to maximize efficiency, ie, legislation, company organizations, agreements, etc. A division is often made between internal and external control, as, for example, between legislative and capital market control. The organization of corporate governance is more widely concerned with ownership structures as a company's success is affected by the type of ownership structure and owners it has. (Pellervo, 2000)

The issues of corporate governance continue to attract considerable national and international attention. Corporate governance is about effective, transparent and accountable governance of affairs of an institution by its management including the board conduct. Governance of financial institutions should aim at protecting the interests of all stakeholders, i.e. shareholders, creditors, regulators, depositors and the public. Corporate governance is particularly important in countries where a number of financial failures, frauds and questionable business practices have adversely affected investor confidence. Investors as well as depositors want safety of their investments, deposits and funds, which need to be ensured by the management of a company, bank or financial organization entrusted with soliciting investments or deposits. In short, corporate governance is really about process, in particular, a decision-making process that (a) hold individuals accountable, (b) encourage stakeholder participation, (c) facilitate the flow of information, and (d) rely on open and clear rules that are fairly and uniformly enforced. It is not the policies and decisions themselves, but how polices and decisions are implemented.

LITERATURE REVIEW

Specific studies into corporate governance issues as they impact on co-operatives in the developing world are very few and this, of course, presents considerable difficulty in reaching any definitive conclusions. However there are some clear starting points for an analysis of the key issues which can be derived from existing studies of the co-operative sector in general, several useful case studies, and discussions with co-operative leaders from the developing world. Given the nature of the evidence, and the general characteristics of co-operatives in the developing world, a region by region approach has been adopted (Shaw, 2006). According to Brasilia (2008), the use of good practices of governance has proved to be fundamental in the success and perenniality of organizations, mainly in what regards security and returns to members. In congruence with this line of thought and with the increasing recognition that corporate governance is a critical element for sustainable economic growth, a working meeting was organized in London in on February 8, 2007. The participant met with an agenda; to build consensus on the corporate governance priorities and technical assistance needs of co-operatives in developing countries.

Brasilia (2008) also observes that every type of organization, not limited to private companies, may benefit from advancements in the field of governance. Indeed, international organizations have taken the lead in disseminating governance practices in organizations such as pension funds, state-owned companies, and cooperatives. As in the majority of contemporary organizations, these also exhibit a set of owners or financers and a set of managers - either owners or otherwise. 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 yields more transparent relations, reducing several risks and improving security in all organizations of the system. Brasilia (2008) further contends that with the severance between business ownership and management, issues of governance start arising, involving alignment of interest of the parties, motivation, asymmetry of information and risk propensity. The main function of corporative governance practices is to ensure that executives pursue the goals determined either by owners or by those responsible for strategic decisions, and not their own goals. In order to avoid these problems - described in the literature as agency problems, individuals in charge of preparing and conducting strategic issues shall monitor the behaviour of those who carry out, exemplified by a Board of Administration, monitoring the management and requiring transparency in information and accountability.

Pallervo (2000) notes that in deciding upon the composition of the board, the members of a cooperative should pay particular attention as to who is appointed chairperson. The qualities of a good chairperson should- include enjoying the widespread confidence of the owners and the necessary respect both within and outside the board. The board and particularly its chairperson, should have the know-how and experience that gives authority vis-à-vis the chief executive. Although members of the board are expected to have a reasonable ability to interpret statistical information relating to the company, they are not expected to be concerned with its day-to-day operations. On the other hand, the board should have the resources to use outside experts when necessary. The attributes of board members can be listed as follows:

(i) Foresight and extensive knowledge

(ii) Criticality, independent judgment and autonomy

(iii) Cooperative

(iv) Diligence and time-effective

(v) Specialized know-how in some part area.

Malo & Vezina (2004) propose a model of five management and governance roles within co-operatives. They also link the tendency for the diminishing role of membership in governance to the expansion of the cooperatives and a growing domination of commercial values fostered by a professional management distanced from cooperative values. Spear (2004) identifies this problem as prevalent within larger co-operatives in the United Kingdom. He argues that the co-operative systems of governance contribute to the development of powerful and entrenched managers who have more control than in similar private-sector companies. He attributes this to managers greater degree of insulation from pressure from external stakeholders together with weaker signals from external markets. Internally, pressure on managers is also weak because of low levels of member participation as evidenced by the situation in UK Consumer Co-operative.

Chaves & Sajardo-Moreno (2004) on the other hand argue that the empirical evidence for the hypothesis of a tendency towards increasing management control is mixed. In their own study, they emphasize the importance of the selection and training of managers in tune with core social enterprise values. This process could be aided by the development of appropriate training courses and educational institutions together with a code of conduct. These processes are critical to the survival of the democratic enterprise. Spear (2004) also suggests a series of measures to limit managerial power by enhancing the commitment to and involvement in the running of the cooperative by the wider membership. Particular issues for co-operative boards derive from their elected status which provides no certainty that the director will hold the right skills mix and knowledge to effectively scrutinize management decisions. This situation is worsened by low levels of member participation in the democratic processes and the extent to which the board of the cooperative societies are perceived to be transparent as a result of executive and management dominance which often trails these institutions (Shaw, 2006).

TRANSPARENCY AND ACCOUNTABILITY :

According to Bhasin (2009), one of the major pillar of good corporate governance is ‘transparency’ which incorporates a system of checks and balances between key players-board of directors, senior level of management, auditors and other stakeholders. Steger & Amman (2008) observe that every organization has a governance system which concerns the distribution of power and responsibilities and consequently, accountability for its performance. Alo (2008) observes that the rise in interest in the subject of corporate governance could be traced to the fact that there is now an increasingly clear separation of ownership from management. The disconnection between the ownership of a business and its management which shields the management from the day to day activities of the business has created the need for the installation of an appropriate and effective framework for insuring transparency and accountability in the management of businesses.

INTERNAL CONTROLS : Sulaiman (2003) observes that the role of internal controls is to ensure that appropriate financial, operational and compliance controls are in place. It is the board’s responsibility to report on the effectiveness of these controls. Lack of internal controls often causes fraudulent activities to go unchecked and inevitably result in the downfall of the organization. The internal control function, which is invariably linked to the risk management function, is associated with the internal audit division in most organizations.

DISCLOSURE OF INFORMATION : According to Healy and Palepu (2001), disclosure comprises all forms of voluntary corporate communications, for example, management forecasts, analyst’ presentations, the annual general meetings, press releases, information placed on corporate websites and other corporate reports, such as, stand-alone environmental or social reports. Appropriate corporate governance disclosure systems means that a good company is able to impress the markets with its integrity. Bhasin & Manama (2009) note that it is universally accepted that all material issues relating to corporate governance of the enterprise should be disclosed in a timely fashion; the disclosure should be clear, concise, precise and governed by the “substance over form” principle.

THEORETICAL FRAMEWORK

STAKEHOLDER THEORY

Stakeholder theory was embedded in the management discipline in 1970 and gradually developed by Freeman (1984) incorporating accountability to a broad range of stakeholders. Wheeler, Colbert & Freeman (2003) argue that stakeholders theory was derived from a combination of the sociological and organisational discipline. Indeed, stakeholders theory is less of a formal unified theory and more of a broad research tradition, incorporating philosophy, ethics, political theory, economics, law and organisational science. Stakeholder theory can be defined as "any group or individual who can affect or is affected by the achievement of the organisation's objectives". Unlike agency theory in which the managers are working and serving for the stakeholders, stakeholder theorists suggest that managers in organisations have a network of relationships to serve – these include the suppliers, employees and business partners. It was argued that this group of network is important other than owner-manager-employee relationship as in agency theory (Freeman, 1999). On the other end, Sundaram & Inkpen (2004) contend that stakeholders theory attempts to address the group of stakeholders deserving and requiring management's attention.

Whilst, Donaldson & Preston (1995) claim that all groups participate in a business to obtain benefits, Clarkson (1995) suggests that the firm is a system, where there are stakeholders and the purpose of the organisation is to create wealth for its stakeholders. Freeman (1984) contends that the network of relationship with many groups can affect decision making processes as stakeholders theory is concerned with the nature of these relationships in terms of both processes and outcomes for the firm and its stakeholders. Donaldson & Preston (1995) argue that this theory focuses on managerial decisions making and interests of all stakeholders have intrinsic value and no sets of interest is assumed to dominate the others. This theory is therefore relevant to the system of cooperative societies which are supposedly financial organizations, owned and controlled by the members, for the provision of small scale financial services. Every member of the society is a stakeholder and is expected to participate in the running of the cooperative with a view to ensuring its survival.

METHODOLOGY

The data used for this study were basically primary in nature. A sample size of 60 respondents were taken from 4 Cooperative Societies from good working societies of Khordha, Bhubaneswar and Cuttack districts of Odisha.

Questionnaire were administered to 15 members of each of these 4 societies. The members were stratified into executive and non-executive staff. Because there are always more of non-executive staff in tertiary institutions and usually much more in cooperative societies of such institutions, 5 executive staff and 10 non-executive staff/memebrs were selected randomly. Out of the 60 sampled respondents, only 44 duly filled and returned the instrument. The study also made use of 5 point Likert scale ranging from Strongly Agree = 5 Agree = 4 Hardly Agree =3 Disagree = 2 to Strongly Disagree = 1

Five hypotheses were formulated for the study and these were :

1. Lack of transparency is not a feature of most PACS.
2. Executives of PACS do not show good commitment toward accountability.
3. Most members do not participate in the democratic process giving room for the emergence of incompetent individuals on the executive and board of directors of PACS.
4. PACS do not engage in sound internal controls and effective riskmanagement.
5. Poor corporate governance does not solely account for the maladministration of PACS.

DATA PRESENTATION AND ANALYSIS

Table 1

Lack of transparency is not a feature of most PACS

Response	X	F	Fx	X	S	%
Strongly Agree	5	5	25			11.11
Agree	4	6	24			13.33
Hardly Agree	3	6	18	2.42	1.8404	13.33
Disagree	2	14	28			31.11
Strongly Disagree	1	14	14			31.12

Using a 5 point Likert scale, Table 1 depicts a simple descriptive statistics with a mean score of 2.42 and a standard deviation of 1.8404. This indicates that majority of the respondents do not agree with the view that lack of transparency is not a feature of most PACS under survey.

Table 2
Descriptive Statistics

	N	Mean	Standard deviation	Percentage
Lack of transparency is not a feature of most cooperative financing in Odisha	45	2.42	1.8404	62.23

Thus with a mean score 2.42 from a maximum point of 5 (i.e. below the midpoint of 5) using the Likert scale, and a cumulative percentage of about 62.23% (higher than the average percentage of 50%), the null hypothesis is rejected. Hence, lack of transparency is a feature of most of the societies under study.

Table3
Executives of PACS do not show good commitment towards accountability

Response	X	F	Fx	X	S	%
Strongly Agree	5	12	60			26.67
Agree	4	17	68			37.78
Hardly Agree	3	8	24	3.64	1.5071	17.77
Disagree	2	4	8			8.89
Strongly Disagree	1	4	4			8.89

Using a 5 point Likert scale, Table 3 depicts a simple descriptive statistics with a mean score of 3.64 and a standard deviation of 1.5071.This indicates that majority of the respondents agree with the view that executives of cooperative societies do not show good commitment towards accountability.

Table 4: Descriptive Statistics

	N	Mean	Standard deviation	Percentage
Lack of transparency is not a Executives of cooperative societies do not show good commitment towards accountability	45	3.64	1.5071	64.45

Thus with a mean score of 3.64 from a maximum point of 5 (i.e. above the midpoint of 2.50) using the Likert scale, and a cumulative percentage of about 64.45 % (higher than the average percentage of 50%), the null hypothesis is accepted. Hence, the executives of cooperative societies do not show good commitment towards accountability.

Table 5

Most members do not participate in the democratic process giving room for the emergence of incompetent individuals on the executive and board of PACS

ANOVA

Source of Variation	Sum of Squares	Degrees of Freedom	Mean Square	F	Sig.
Between Groups	1.389	4	0.347		
Within Groups	21.722	40	0.543	0.639	0.637
Total	23.111	44			

From the result, it is shown that the sum of squares for between groups and within group are 1.389 and 21.722 respectively. The mean square shows a value of 0.347 and 0.543 respectively. However, the F-statistic values which helps to tell about the overall significant of a model and its goodness of fit shows a value of 0.639. This result is below the tabulated value of 2.61 with V1=V2 degree of freedom. The result from the significance table shows it is not highly significant. Hence, we accept the null hypothesis that most members do not participate in the democratic process giving room for the emergence of incompetent individuals on the executive and board of cooperatives in Odisha.

Table 6

PACS do not engage in sound internal controls and risk management

ANOVA

Source of Variation	Sum of Squares	Degrees of Freedom	Mean Square	F	Sig.
Between Groups	3.177	4	.794	.388	.816
Within Groups	81.801	40	2.045		
Total	84.978	44			

From the result, it is shown that the sum of squares between groups and within group are 3.177 and 81.801 respectively. The mean square shows a value of 0.794 and 2.045 respectively. However, the F-statistic values which helps to tell about the overall significant of a model and its goodness of fit shows a value of 0.388. This result is below the tabulated value of 2.61 with V1=V2 degree of freedom. The result from the significance table shows it is not highly significant. Hence, we accept the null hypothesis that the societies do not engage in sound internal controls and risk management.

Table 7

Poor corporate governance does not solely account for the maladministration of PACS

ANOVA

Source of Variation	Sum of Squares	Degrees of Freedom	Mean Square	F	Sig.
Between Groups	2.058	4	0.515	0.390	0.814
Within Groups	52.742	40	1.319		
Total	54.800	44			

From the result, it is shown that the sum of squares for between groups and within group are 2.058 and 52.742 respectively. The mean square shows a value of 0.515 and 1.319 respectively. However, the F-statistic values which helps to tell about the overall significance of a model and its goodness of fit shows a value of 0.390. This result is below the tabulated value of 2.61 with V1=V2 degree of freedom. The result from the significance table shows it is not highly significant. Hence, we accept the null hypothesis that poor corporate governance does not solely account for the maladministration of cooperative financing in the State.

EMPIRICAL FINDINGS

From the five hypotheses tested above the following observations were revealed and these are:

- ☞ Lack of transparency is a feature of cooperative financing in PACS of Odisha;
- ☞ The executives of cooperative societies do not show good commitment towards accountability;
- ☞ Most members do not participate in the democratic process giving room for the emergence of incompetent individuals on the executive and board of directors of PACS in Odisha;

- PACS in Odisha do not engage in sound internal controls and risk management;
- Poor corporate governance does not solely account for the maladministration of PAC Sin Odisha.

CONCLUSION AND RECOMMENDATION

The study was carried out to investigate the role of corporate governance practices in corporative financing in Odisha. Three of the most important corporate governance mechanisms such as transparency, accountability, internal controls and risk management were examined. The survey was meant to examine whether lack of transparency is a feature of cooperative financing in the State, to determine whether the executives of cooperative societies show good commitment toward accountability and to assess the significance of members' participation in the democratic process giving room for the emergence of incompetent individuals on the executive and board of directors. It was also designed to evaluate the need for cooperative societies to engage in sound internal controls and risk management and also to investigate whether poor corporate governance is solely accountable for the maladministration of cooperative societies in Odisha. Five hypotheses were stated in their null form and were also tested using descriptive statistics and analysis of variance. The outcome of the hypothesis testing was that while only hypothesis 1 was rejected, hypothesis 2, 3, 4 and 5 were accepted. Essentially, the study revealed that poor corporate governance does not solely account for the maladministration of cooperative societies. The study therefore makes the following recommendations that will enable cooperative societies in Odisha to run their affairs as smoothly as possible and also engender trust and confidence in the cooperative system.

1. That the members must be deeply interested in the activities of the cooperative societies and be ready to serve in various capacities whenever the situation arises.
2. That the executive should demonstrate a high level of commitment towards the sustainability of cooperative societies.
3. That these societies should embrace the principles of good corporate governance that is capable of fostering total accountability, adequate transparency, sound internal controls and full disclosure of their activities.
4. State Government in general and Cooperation department in particular should endeavour to beam its searchlight on the administration and operation of cooperative societies in each of the districts in Odisha.

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