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Original Article

Composition and Financial Performance of Farmers' Cooperative Societies in Kericho County, Kenya

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ABSTRACT

The main focus of this study was to analyse the relationship between board composition and the financial performance of farmers' cooperative societies in Kericho County, Kenya. The study was based on the Stakeholder Theory and adopted a correlational research design. The target population consisted of accounting officers, auditors, chief executive officers, directors, managers, and employees from the 51 farmers' cooperative societies registered by the Ministry of Cooperatives in Kericho County. A sample size of 303 participants was determined through Yamane's (1967) formula. Data was collected using a structured questionnaire, and subject experts were consulted to enhance the validity of the research instrument. The instrument's reliability was measured using Cronbach's alpha coefficient, which yielded a result of 0.8999, indicating sufficient reliability for the study. A pilot study was conducted in Bomet County, using 10% of the sample size to evaluate the research instrument's validity. The data from the study was analysed using descriptive statistics, that is, mean and standard deviation, and inferential statistics using correlation and multiple regressions. The results were presented using frequency tables. The study found that board composition was statistically significant (Beta=0.431; p=0.000<0.055) and positively influenced the financial performance of farmers' cooperative societies. Overall, the study concluded that board composition had a positive statistically significant relationship with the financial performance of the farmer cooperative societies. The findings from this study could be used to improve the delivery of services to farmers by cooperative society management. It can also help policymakers, such as the government and other stakeholders, make informed decisions and policies to enhance the performance of cooperative societies across the country. Finally, the study's findings will benefit researchers interested in studying the relationship between board composition and the financial performance of farmers' cooperative societies.

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INTRODUCTION

Farmers' cooperative societies are organisations formed by a group of farmers or agricultural producers who come together to achieve common goals and address common challenges in their agricultural activities. These cooperatives are based on the principles of cooperation, mutual help, and democratic decision-making (Singh et al., 2019). In most countries, agricultural cooperatives play a crucial role in the agricultural sector, particularly in empowering small-scale farmers and promoting sustainable agriculture practices. They provide a way for farmers to work together to overcome challenges that would be difficult to tackle individually and ensure a more equitable distribution of benefits within the agricultural community (Hakelius, 2018).

The development of agricultural cooperative societies dates back to the 18th and 19th centuries, and they have continued to evolve and adapt to the changing needs of farmers and the agricultural sector. In addition, their development has been shaped by the collective efforts of farmers, supportive government policies, and a commitment to cooperative principles and governance mechanisms (Mwebia, 2020; Singh et al., 2019).

According to da Silva et al. (2022), the modern cooperative movement has its roots in the 19th century, with the establishment of the Rochdale Society of Equitable Pioneers in England in 1844, the first credit union by Friedrich Wilhelm Raiffeisen in Germany in 1864, and the passage of the Capper-Volstead Act in the USA in 1922 that granted agricultural cooperatives limited exemptions from antitrust laws, enabling farmers to collectively market their products and improve their bargaining power.

In Nigeria, the Marketing Cooperative Federation was founded in 1935 to address the exploitation of farmers by middlemen. Tanzania launched the Ujamaa policy in the 1960s, emphasising collective farming and the formation of agricultural cooperatives. While in Kenya, the Kenya Farmers Association was established in 1923 to help smallholder farmers improve their productivity and market access.

Despite the fact that agricultural cooperative societies are key drivers in economic development and enhanced livelihoods of farmers in rural areas, they have consistently experienced a decline in their financial performance globally. In Bangladesh financial performance of the cooperative societies in the sector that contributes approximately 35 per cent of the gross domestic product and creates employment of 60 per cent has been declining due to poor management, internal conflicts, or lack of accountability, leading to the deterioration of cooperative societies.

In Sweden, farmers' cooperative societies have enhanced the development of the economy, where the farmers' sector has created approximately 57,000 employment opportunities. The sector ranges from wheat farming, barley farming, milk production, and pig production (Grashuis & Su,

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2019). However, over the last two decades, the country witnessed a decline in the financial performance of the cooperative societies, which has been attributed to a lack of transparency and accountability in the management of the societies, insider control and an increased lack of member participation.

According to Odetola et al. (2015), cooperative societies in Nigeria significantly reduce poverty and contribute to capital formation among members, but despite this contribution, rural farmers do not get financial services from financial institutions because of bureaucratic management procedures. Adeyemi-Suenu (2014) attributed the decline in financial performance of farmers' cooperative societies and non-cooperation by members in Nigeria to poor management and governance, including a lack of accountability and internal conflicts.

The Rwandan government recognises agricultural cooperative societies as among the main means of eradicating poverty in rural areas. The national administration has pumped financial resources into the farmers' cooperative societies to assist their operations (Emmanuel, 2021). However, some of the cooperatives have performed poorly, which has been linked to poor corporate governance arising from malpractices by the boards (Mubirigi et al., 2016). Twimukye (2017); Rwekaza and Mhihi (2016) reported poor corporate governance in the Tanzania and Uganda farmer cooperative societies contributes to the decline in their financial performance.

Farmers' cooperative societies are considered the most prominent in Kenya compared to other cooperative societies. These cooperative societies assist farmers in collecting, processing, storing, and selling the products of their members. The cooperative sector in Kenya contributes 51 per cent of the gross domestic product. It is reported that 26 per cent is directly linked to GDP while 25 per cent contributes indirectly. The cooperative sector exports over 65 per cent of its product, creating job opportunities for almost 40 per cent of the total population (GOK, 2019). However, according to Kenya Cooperative Society's yearbook (2020), farmers' cooperative societies in Kericho County have experienced a 10 percent drop in financial performance from 2018.

Problem Statement

Farmers' cooperative societies perform an essential role in the development and growth of farmers. This is through providing farmers with farmers' inputs, organising training programs, granting loans, and marketing their farm produce. Despite the significant contributions, they have yet to realise their full potential. According to Kenya Cooperative Society's yearbook (2020), farmers' cooperative societies in Kericho County have been posting a drop in performance by 10% since 2018, raising an alarm about the consistent decline in annual financial performance. Several studies ssuch as those of Al-Saidi et al., (2013); Madhani (2017); Martín and Herrero (2018) have been conducted on board composition and financial performance, however, the study findings have been inconsistent. It is unclear how the various components of board composition such as diversity, experience, and board size could influence the financial performance of farmers' cooperative societies. Few academic research studies have been conducted to determine the relationship between board composition and the financial performance of agricultural cooperative societies. Thus, this study sought to assess the relationship between board composition and the financial performance of farmers' cooperative societies in Kericho County, Kenya. The findings of this study will be significant to the management of farmer cooperative societies, policymakers and scholars interested in carrying out research on the relationship between board composition and the financial performance of farmers' cooperative societies.

Research Hypothesis

H_{01}: There is no statistically significant relationship between board composition and the financial performance of farmers' cooperative societies in Kericho County, Kenya.

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LITERATURE REVIEW

Theoretical Review

The study was anchored on Stakeholder theory, which was first developed by Dr. F. Edward Freeman in 1984. The stakeholder theory postulates that the main responsibility of managers, including the board of directors, is to oblige to the stakeholders' interest in the best way possible, using the resources of the cooperative societies to increase the stakeholders' wealth through the enhancement of profits. In addition, the theorists assert that upholding such behaviour within the constraints of the legal frameworks and without fraud will be helpful for society as a whole. Freeman et al. (2004) noted that through stakeholder theory, there were expectations that firms would make efforts to mitigate conflicts among board members. Further, the theory incorporates all the interests of other parties that depend on the firm.

Mutuku (2016) adopted the theory while conducting an examination on the effects of effective corporate governance (CG) on Sacco's financial performance at Athi River in Machakos County. According to the research study, good corporate governance is meant to maximise the creation of wealth for the whole corporation. Stakeholders are individuals or any group who affect the achievement of organisational objectives. Therefore, organisations are affected by a set of interest groups, such as organisations that are board members. The board composition is core to the organisation's performance or success of the corporation.

Stakeholder theory has been criticised by some scholars, such as Blattberg and Charles (2004), who noted that stakeholder theory assumes the interest of several stakeholders who can be at best balanced against one another or compromised. Donaldson and Preston (1995) also argued that the theory failed to differentiate between various stakeholders and their essential contributions to the firm. Further, the theory is critiqued for being too imprecise both in descriptive capacity and its instrumental utility.

Despite this criticism, various scholars have supported the theory of stakeholders by asserting that inside directors are more trustworthy to the firm's resources, thus leading to the improvement of a firm's performance because of information asymmetry (Nicholson & Kiel, 2007). In contrast, other scholars argued that internal directors have an in-depth understanding of the firm, which creates more awareness of the valuable materials that can be put into use to improve the firm's performance (Donaldson, 1990). Therefore, this theory supported the second objective on the relationship between boards' composition and the financial performance of farmers' cooperative societies financial performance.

Empirical Review

The research analysed previous studies that examined the influence of board composition on the financial performance of farmers' cooperative societies in Kericho County, Kenya. The reviewed studies included scholarly research, journal articles, and other publications.

Board Composition and Financial Performance

The Board of Directors is a crucial element in ensuring effective corporate governance within an organisation. As such, its composition must be responsive to key functions, including supervision and monitoring, preventing opportunistic behaviours by executives, and providing guidance to decision-makers to enhance the company's performance (Madhani, 2017). According to Al-Shammari and Al-Saidi (2013), Board composition is comprised of various indicators such as board diversity, board experience, and board size. An adequately constituted board is essential for achieving a company's goals and objectives, as highlighted by Al-hadal et al. (2020). This allows for increased efficiency and effectiveness in operations. Additionally, a well-constituted board improves a company's image, thereby attracting stakeholders' trust and support.

Dzingai and Fakoya (2017) conducted research on the Johannesburg Stock Exchange in South Africa to determine how the corporate governance structure of listed mining firms affects their

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financial performance. The study focused on agency theory and examined three specific objectives: board size, knowledge balance, and diversity. The researchers used integrated financial annual and sustainability reports from 2010 to 2015 in a survey design to gather data. The study utilised panel data analysis of the random effect model. Results showed that board size had a negative influence on return on assets. It can be noted that the research was limited to listed mining companies in South Africa and used a survey research design. This study's findings can not be generalised to the agricultural sector due to many reglualtions in the mining sector. Therefore, the current study was carried in farmers' cooperative societies using a correlational research design.

Martín and Herrero (2018) studied how the composition of a business's board of directors can impact its performance, measured by Tobin's Q ratio and economic profitability. The study focused on three main aspects of board composition: diversity, board size, and experience. The research used a descriptive design and included data from 49 respondents between 2010 and 2015. Multiple regression techniques were used to analyse the data. The results showed that board experience did not have a significant impact on the firm's performance. However, board size and diversity had a positive influence on performance. The study used only one measure of performance, Torbin's Q, a market-based measure of financial performance. The current study used sales growth, profit increase and asset base increase to measure financial performance.

In a study conducted by George and Muiruri (2022), the connection between the financial performance of microfinance institutions and their corporate governance was examined in Inking Limited, Rwanda. The research focused specifically on the impact of diversity, board size, and CEO duality. Using a correlational research design, the study included 35 employees and 11 board members as its target population. Primary data was collected through face-to-face and self-administered questionnaires. Descriptive and inferential statistics were used to analyse the data, revealing a positive correlation between board size and financial performance, while diversity displayed an insignificant relationship with performance. The study's conclusion stated that board size is a crucial factor in improving corporate governance. It is worth noting that this study was performed on farmers' cooperative societies, whereas the previous study was conducted in financial institutions and due to different regulatory frameworks, the study's fisnidngs can bot be generalised to the agricultural sector.

Chemweno (2016) conducted research on the relationship between board diversity and the performance of NSE-listed firms. The study focused on board age, cultural diversity, and gender diversity and evaluated performance using return on assets. The research employed a quantitative research design, gathering data from 42 firms through secondary data obtained from their annual financial reports. Panel data estimation methods were used for analysis. The study concluded that board diversity had no statistically significant correlation with firms' performance. While Chemweno's study analysed NSE-listed firms, this study examines the performance of farmers' cooperative societies.

Mutuku (2016) conducted a study in Machakos County, Kenya, that examined the connection between Corporate Governance and the financial performance of Athi River town. The study utilised shareholders, stakeholders, and agency theory. A descriptive research design was employed, with a population of 101 cooperative societies, and a sample size of 33 was chosen through stratified random selection. The semi-structured questionnaire was used to collect primary information, which was analysed statistically and descriptively. The study discovered that board composition had a strong correlation with Sacco's financial performance. It should be noted that this study was conducted in farmers' cooperative societies and utilised a correlational research design, unlike the previous

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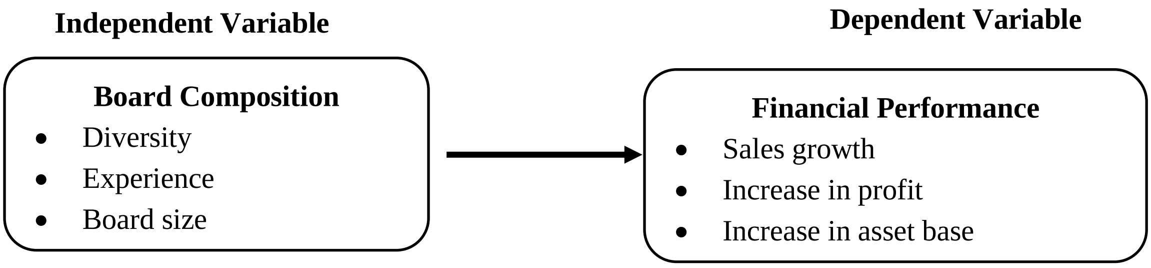
study conducted in Saccos, which adopted a descriptive research design.

Conceptual Framework

In *Figure 1*, board composition is the independent variable whose parameters are board diversity, board experience and board size. Financial performance is the dependent variable measured by sales growth, increase in profits and increase in asset base.

Figure 1: Conceptual Framework



MATERIALS AND METHODS

This study adopted a correctional research design to establish the relationship between board composition and the financial performance of agricultural cooperative societies. This study's target population was 1,261 individuals comprised of the entire management of registered farmer cooperative societies, including accounting officers, auditors, CEOs, directors, employees, and managers from the 51 farmers' cooperative societies registered by the Ministry of cooperatives in Kericho County and that were operational during the period of study. A sample size of 303 respondents was determined scientifically using Yamane's (1967) formula. Data were obtained using structured questionnaires whose content, construct, face, and criterion validity were ensured through extensive literature review and consultation with subject experts in finance. The instrument's reliability was measured through a pilot study from the neighbouring Bomet County. The obtained data were analysed descriptively using means, frequencies, and standard deviation and inferentially using correlation and multiple regression analysis. The findings were presented using frequency tables.

RESULTS AND DISCUSSION

Demographic Characteristics

Out of 303 questionnaires sent out, the researcher received 282, giving a response rate of 93%, which was sufficient for the study. The majority of respondents, 51.4%, were male, with 48.6% being female. In terms of age, 15.2% of respondents were under 30 years old, 22% were between 31 and 40 years old, 22.7% were between 41 and 50 years old, 24.1% were between 51 and 60 years old, and 16% were over 61 years old. Additionally, the study found that 32.6% of respondents had a diploma as their highest level of education, while 30.9% had a certificate, 19.1% had undergraduate or advanced degrees, and 17.4% had only completed high school. Finally, the study found that 39.7% of respondents had worked in a cooperative society for 6-10 years, 35.8% for less than 5 years, 14.5% for 11-15 years, and 9.9% for more than 16 years. This indicates that the respondents were able to answer the research questions accurately.

Descriptive Statistics

The study sought to evaluate the influence of board composition on the financial performance of farmers' cooperative societies. The participants were asked to rate their level of agreement on a scale of 1 to 5, with 1 being "Strongly Agree" and 5 being "Strongly Disagree" in response to various statements related to the variables being studied.

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The results were analysed and presented using tables showing the responses' frequency, mean, and standard deviation.

Board Composition and Financial Performance

Table 1 demonstrates that board diversity has a positive impact on the financial performance of farmers' cooperative societies by promoting a diverse range of opinions. Out of the 282 respondents, 15 (5.3%) strongly disagreed, 16 (5.7%) remained neutral, 168 (59.6%) agreed, and 83 (29.4%) strongly agreed with this opinion, resulting *(M=4.081; SD=0.909)*. However, a significant number of respondents 23 (8.2%), disagreed that cooperative society directors possess adequate experience to make decisions that affect the financial performance of farmers' cooperative societies. Additionally, 23(8.2%) respondents strongly disagreed, 24(8.5%) remained neutral, 113(40%) agreed, and 99(35.1%) strongly agreed with this opinion *(M=3.589; SD=1.217)*.

The study also evaluated whether board size influences decision-making and positively impacts the financial performance of farmers' cooperative societies. Of the respondents, 39 (13.8%) disagreed, 31 (11%) remained neutral, 107 (37.9%) agreed, and 105 (37.2%) strongly agreed (*M=3.985, SD=1.019*). Regarding the statement that variations in board tenure contribute to the systematic implementation of decisions, leading to an increase in financial performance, 8 (2.8%) strongly disagreed, 21 (7.4%) agreed, 16 (5.7%) remained neutral, 130 (46.1%) agreed, and 107 (37.9%) strongly agreed (M=4.089; SD=0.992). Finally, 8 (2.8%) strongly disagreed that board composition leads to increased sales revenue, 24 (8.5%) disagreed, 31 (11%) remained neutral, 134 (47.5%) agreed, and 85 (30.1%) strongly agreed (M=3.936; SD=1.003). The results of this study support the findings of Chemweno (2016) and Martín and Herrero (2018), indicating that board size and diversity have a positive impact on performance. However, the results contradict those of Dzingai and Fakoya (2017), who found that board size had a negative effect. Additionally, George and Muiruri (2022) found that board diversity did not have a significant relationship with firm performance, which differs from the results of this study.

Financial Performance

The study sought to determine corporate governance's influence on the financial performance of farmers' cooperative societies. The frequencies, mean, and standard deviation of the findings are tabulated in *Table 2*.

Table 2 shows that good corporate governance in farmers' cooperative societies in Kericho County resulted in increased sales revenue, according to the majority of respondents. Out of 282 respondents, 121 (42.9%) agreed, and 91 (32.3%) strongly agreed with this statement. Only 31 (11%) remained neutral, while 8 (2.8%) strongly disagreed, and 31 (11%) disagreed, with a mean of 3.90 and a standard deviation of 0.98. Additionally, 139 (49.3%) strongly agreed that corporate governance contributed to increased profits, while 105 (37.2%) agreed with the statement. Only 30 (10.6%) remained neutral, and 8 (2.8%) strongly disagreed *(M= 4.30; SD= 0.87)*.

Most respondents, 82 (29.1%), believed that the cooperative society's asset base increased due to good corporate governance. However, 70 (24.8%) remained neutral, while 31 (11%) strongly disagreed, and 46 (16.3%) disagreed. On the other hand, 53 (18.8%) strongly agreed (*M= 3.28; SD=0.85)*. The study also found that good corporate governance led to increased business diversification by the cooperative society. Out of 282 respondents, 121 (42.9%) agreed, while 61 (21.6%) strongly agreed with this assertion. Additionally, 46 (16.3%) remained neutral, and 54 (19.1%) disagreed (M=3.67; SD= 0.96). Finally, 90 (31.9%) respondents strongly believed that corporate governance led to increased share dividends, while 92 (32.6%) agreed with this statement. Only 24 (8.5%) strongly disagreed, 30 (10.6%) disagreed, and 46 (16.3%) remained neutral (M=3.68; SD= 0.77).

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Table 1: Board composition and financial performance

Statement on Board Composition	(SD)	(D)	(N)	(A)	(SA)	M	SD
Board diversity contributes to a wide variety of opinions, enhancing effective farmers' cooperative society financial performance.	15 (5.3)		16 (5.7)	168 (59.6)	83 (29.4)	4.081	0.909
Directors of cooperative societies have the necessary experience in conducting their mandates that affect farmers' cooperative societies' financial performance.	23 (8.2)	23 (8.2)	24 (8.5)	113 (40)	99 (35.1)	3.589	1.217
The size of the board enhances decision-making, which contributes to improvement in the financial performance of the farmers' cooperative society.		39 (13.8)	31 (11)	107 (37.9)	105 (37.2)	3.985	1.019
The variations of board tenure contribute to the systematic implementation of decisions, leading to increased financial performance.	8 (2.8)	21 (7.4)	16 (5.7)	130 (46.1)	107 (37.9)	4.089	0.992
Board composition has led to an increase in sales revenue.	8 (2.8)	24 (8.5)	31 (11)	134 (47.5)	85 (30.1)	3.936	1.003

Table 2: Financial performance

Statement on Financial Performance	(SD)	(D)	(N)	(A)	(SA)	M	SD
Corporate governance has led to an increase in sales revenue.	8 (2.8)	31 (11)	31 (11)	121 (42.9)	91 (32.3)	3.90	0.98
Corporate governance has contributed to an increase in profits.	8 (2.8)		30 (10.6)	105 (37.2)	139 (49.3)	4.30	0.87
Cooperative society's assets base has increased because of good corporate governance.	31 (11)	46 (16.3)	70 (24.8)	82 (29.1)	53 (18.8)	3.28	0.85
Good corporate governance has contributed to cooperative society's diversification.		54 (19.1)	46 (16.3)	121 (42.9)	61 (21.6)	3.67	0.96
Corporate governance has led to an increase in share dividends.	24 (8.5)	30 (10.6)	46 (16.3)	92 (32.6)	90 (31.9)	3.68	0.77

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Inferential Statistics

According to the information in *Table 3*, having a diverse board has a positive and significant impact on the financial performance of farmers' cooperative societies ($r=0.575$; $p=0.000<0.05$). This means that when the board is made up of members with different backgrounds and perspectives, it can improve the organisation's financial results. These results are consistent with previous research conducted by Kyere and Ausloos (2021), Abubakar et al. (2018), and Emmanuel (2021), who also found a positive and significant relationship between board composition and organisational financial performance.

Table 3: Correlation analysis

		Board Composition	Financial Performance
Board Composition	Pearson Correlation	1	0.575**
	Sig. (2-tailed)		0.000
	N	282	282
Financial Performance	Pearson Correlation		1
	Sig. (2-tailed)		
	N		

Table 4: Regression Model Summary for Board Composition

Model	R	R^2	Std. Error of the Estimate	Adjusted R^2
1	0.576	0.336	0.03425	0.2210

a) Predictors: (Constant), Board Composition
b) Dependent Variable: Financial Performance of Farmers' Cooperative Societies

The regression summary table indicates that there is a positive relationship between board composition and the Financial Performance of Farmers' Cooperative Societies. This is indicated by the $R=0.576$, $R^2=0.336$, a standard error estimate of 0.0342 and an adjusted R^2 of 0.221. this implies that the predictor variables board diversity, board experience, and board size explain 33.6% of the variation in the financial performance of cooperative societies, while 64.4% could be explained by other variables.

Table 5: Analysis of Variance

	Model	Sum of Squares	df.	Mean Square	F	Sig.
1	Regression	150.867	1	150.717	132.144	0.000b
	Residual	98.470	345	0.285		
	Total	249.337	349			

a. Dependent Variable: Financial Performance of Farmers' Cooperative Societies
b. Predictor: (Constant), Board Composition,

Table 5 indicates that the F-statistic of the regression is significant ($P<0.05$), implying that the model applied significantly. Board Composition influenced the Financial Performance of Farmers' Cooperative Societies.

Table 6: Regression Coefficients

	Model	Unstandardised Coefficients		Standardised Coefficients	t	Sig.
		Beta	Std. Error	Beta		
1	(Constant)	0.861	0.185		4.651	0.000
	Board Composition	0.431	0.095	0.333	4.554	0.000

a. Dependent Variable: Financial Performance of Farmers' Cooperative Societies

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The regression model in *Table 6* indicates that Board Composition has a significant positive relationship with the Financial Performance of Farmers' Cooperative Societies ($P<0.05$). This implies that when all other factors are kept constant, a unit increase in board composition contributed 0.431 units to the rise in the financial performance of Farmers' Cooperative Societies ($\beta = 0.431$, $P<0.05$).

The regression model tested in the study was;

$Y = \beta_0 + \beta_1 X_1 + \varepsilon$

This implies that

$Y = 0.861 + 0.341X_1 + \varepsilon$

Where Y=dependent Variable (financial performance); β_0 = Constant; X_1 = Independent Variable (board composition); ε = Error Term

CONCLUSION AND RECOMMENDATION

The study found that the composition of the board has a positive and significant impact on the financial performance of farmers' cooperative societies in Kericho County. The study found that board diversity, relevant experience, variations in director tenure, and board size all contribute positively to the financial performance of farmers' cooperative societies. The study recommends that farmers' cooperative societies prioritise diversity in their boards of directors for better decision-making. This diversity brings varied experiences and expertise to the board. The study also recommends that the board establish a fixed tenure for directors to ensure optimum service delivery to stakeholders.

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