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Enhancing board motivation for competitive performance of Thailand's co-operatives

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ABSTRACT

This study aims to answer the main questions “does the motivation of co-operative boards of directors affect co-operative performance in Thailand, and to what extent?; and Which factors affect the motivation of a co-operative's board of directors? The methods used for the study is the Structural Equation Modeling (SEM). Data used for the model estimation are collected primarily by questionnaire surveys from both Board of directors and the managers from the co-operatives in Thailand. Secondary data is the financial and non-financial indicators of the co-operatives, which were collected by Co-operative Auditing Department and Co-operative Promotion Department. The study result suggests that the motivation of co-operative boards of directors significantly affects co-operative performance. Factors that are found to affect board member motivation include board authority and function, board composition, board meeting quality, board members' skill, transparency in the evaluation and compensation setting process and financial compensation.

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1. Introduction

The main stream of board research focuses on studying the relationship between board characteristics for instance board size, board diversity, chairman-CEO duality, and the performance of the firm. However, research results are inconclusive as the relationship is not clear and the mechanism that explains the relationship is still in a black box. Therefore, many researchers have been trying to understand this mechanism and board motivation is one interesting factor that should be studied further (Hambrick, Werder, & Zajac, 2008; Huse, 2007; Ryan, Lynch, Vansteenkiste, & Deci, 2010).

Even though a lot of studies have been conducted on the topic of motivation, studies related to board motivation are very few (Silva, 2005; p.346, 350). Most of the research on this topic does not study the directors' motivation directly. The main stream of governance literature is dominated by the agency theory which assumes that directors are motivated to protect principles' (owners/shareholders) interest from opportunistic behavior of the agents (manager).

However, the validity of this assumption is argued by other theories. For example, the stakeholder theory assumes that board

motivation is to protect the benefits of stakeholders whom the board members represent. The stewardship theory is another theory which assumes that the Board of Directors' are motivated by altruism (Cornforth, 2004). Therefore, many studies focus on studying the theory with which board motivation is consistent with.

Moreover, Hambrick et al. (2008) explained that knowledge on motivation of executive directors has increased. However, knowledge on motivation of non-executive directors or outside directors is still not clear (Hambrick & Jackson, 2000).

In the present, good governance practices encourage a company to have more outside directors compared to inside directors. The agency theory explains that outside directors are motivated to protect the shareholder's benefits rather than their own benefits, because they are independent from a company's management (Gilson, 1990; Yermack, 2004).

Nevertheless, there is an argument that the non-executive director is also an agent for the company owner. Therefore, they will work for their own benefits, similar to the executive directors (Gomez & Russell, 2005). Another explanation is that outside directors are motivated by self-interest, such as reputation. They expect that, for their good work, they will be re-elected as a board member or elected as another companies' board member. Additionally, Fehr and Gächter (2000) and Osterloh and Frey (2000) used the economic theory of firm to explain that all behaviors of a board member are motivated by external factors such as financial compensation.

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For a democratic member-based organization such as a co-operative, it is unlikely to lead to an agency problem because all members of the Board of Directors are the co-operatives shareholders and are elected from the co-operative member's meeting. The main motivation of the co-operatives Board of Directors is supposed to work for member benefits because the philosophy of the co-operative focuses on cooperating and supporting each other (Spear, 2004). Still, there is an objection that motivation in terms of collective action, like working as a member of co-operative Board of Directors, depends on costs and benefits of that work too. Olson (1965) described that a person will work for the greater good, if the benefits from his/her works are greater than the costs he/she pays for that work. Therefore, shareholders are motivated to monitor a manager if they believe that the additional personal cost of monitoring will be lower than the benefits which will be received in return (Matthews, 2007).

From the researcher's observation, the most important problem related to co-operative board of directors is the lack of motivation among board members, managers, as well as staff, to drive their co-operatives forward. This is because the co-operative is a collective enterprise and one core principle is "one person, one vote," regardless of the number of shares owned, so that individual has no motivation to invest in the success of the co-operative (The National Institute of Open Schooling, 2012, p.99).

Moreover, board members receive very small financial returns. Co-operative board compensation ranged from \$60–\$2500/year in 1986 (Zimbelman, 1986) (about \$200–\$9490 in 2014) while total board compensation levels (in US public companies) regardless of company size ranged from \$134,000–\$250,000 per year in 2014 (Cook & Co., Inc., 2014). Therefore, their volunteer work is without much motivation and they tend to spend minimal time, skill and effort in co-operatives compared to the time, skill and effort invested in work that will generate greater personal income and benefits elsewhere.

However, past studies of the relationship between the motivation of co-operative Board members and co-operative performance in Thailand e.g. Rapeepat (1980) and CPD (1985) are qualitative research. It still does not explain the relationship based on clear evidence. Hence this article is a test of the relationship between the co-operatives board motivation and the co-operatives performance using Vroom's Expectancy Theory of motivation. This study would be beneficial to both theoretical and policy development to enhance co-operative board members' motivation.

2. Literature review

The co-operatives operate on a self-help philosophy. Most co-operatives are governed by board members who work voluntarily and are elected by the members. This philosophy implies that the membership influences the management of board members and the co-operative manager while the board members are motivated to protect the member's benefits. However, the results of empirical studies and experts' opinions on the co-operatives performance have pointed to various governance problems, such as financial scandals, the failure of democracy (Lees, 1995), faulty management, monopoly of power, the restriction of members' participation (Lees & Volkens, 1996), rent seeking behavior, corruption by boards of directors, lack of transparency in the decision-making process or weakness of monitoring and control mechanisms, etc. (Corporate governance and Co-operatives, 2007). These raise doubts about the quality of co-operative governance.

One question regarding the issue of governance is the duty of board members in working or not working as representatives of the members, since co-operative board members are not under internal

or external pressure as an investor-owned firm's board members are.

Members rarely participate in their board members' work, due to having a lack of involvement in the election of the board members and a lack of member participation in monitoring and controlling the board operations (Spear, 2004).

Also, most co-operatives do not have board performance evaluation mechanisms because their operation is complex and multi-purpose which leads to conflict on how to evaluate board performance. Consequently, it is difficult for the co-operative Board of Directors to have important information and to monitor the co-operatives operations efficiently (Enjolras, 2004; Spear, Cornforth, Chaves, & Schediwy, 2004). Conversely, an investor-owned firm has the sole purpose of maximizing profit. Moreover, companies registered in the Stock Exchange have to comply with corporate governance practices related to board roles and responsibilities and board evaluation. Accordingly, to evaluate an investor-owned firm's performance is quite simple.

Normally, co-operative board members are not under pressure from outside because their shares are not traded on the market. Thus, there is no external control from the market, and the rules to protect members' rights are weak (Monzon-Campos, Spear, Thomas, & Zevi 1996). Oppositely, a public company limited is bound by the rules and regulations of the Stock Exchange which aim to protect minor shareholders' rights which include for example, the right in nominating and selecting a person to be a board member, right in monitoring board operations, right in receiving reports on board operations and a company's performance, etc. For a company to have good performance and be attractive to investors, Board of Directors has to put their effort in monitoring and controlling the company's management.

Based on the operations and governance problems of co-operatives and restricted understanding of board behaviors, particularly with Board conflicts between motivations to work on the basis of voluntary work for the public's interest or for personal gain, this research studies the Thailand' co-operatives board motivation and the factors influencing it which has never been studied before as it shows in Table 1.

This research will improve the understanding of the co-operative board motivations which will help in understanding the co-operatives board behaviors and may lead to improved governance quality and co-operative's performance in Thailand.

3. Research framework

Chareonwongsak (2015) developed a new conceptual framework on the co-operative board member's motivation and the co-operative's performance based on Vroom's expectancy theory (Vroom, 1964) which explained that motivation is a function of three factors: expectancy, instrumentality and valence.

Expectancy is the perception of how increased effort leads to better performance. This includes the availability of resources and occupational support. *Instrumentality* is the perception of how much benefit will result from performance. This factor depends on transparency in the evaluation process and how the relationship between performance and outcomes is understood. Finally, *valence* is the degree of value placed on performance outcomes (Serrano, 2015).

Also, board motivation depends upon expectancy, instrumentality and valence. Expectancy is affected by the decision making process, board authority and function, board composition, board size, board term, board structure, board meeting, CEO-chairman duality, board skill and support given to the work of the board. Instrumentality is affected by transparency in the evaluation process, other direct benefits and compensation whereas valence is

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