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Joshua Wathanga, Professor George O. K'Aol and Dr Joseph K. Ngugi

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EFFECT OF PARTICIPATIVE GOVERNANCE AND HUMAN CAPITAL ON THE ORGANIZATIONAL PERFORMANCE OF DAIRY CO-OPERATIVES IN KENYA

*Joshua Wathanga
Research scholar, Chandaria School of Business
United States International University- Africa
* Email: jwathanga@gmail.com

Professor George O. K'Aol, & Dr. Joseph K. Ngugi
Chandaria School of Business
United States International University- Africa
P.O Box 14634-0800, Nairobi, Kenya

Abstract

Purpose: The purpose of this study was to investigate the effect of participative governance and human capital on the organizational performance of dairy co-operatives in Kenya.

Methodology: The study adopted the positivist research philosophy and descriptive correlational research design. The population of the study consisted of 198 executive directors/managers of active dairy co-operatives in eight counties in the Mt. Kenya region. A sample size of 184 was drawn using stratified random sampling, and data was collected using self-administered questionnaires. The data was then analyzed using descriptive statistics of frequency, mean, and standard deviation. Additionally, inferential data analysis methods of Pearson's correlation, ANOVA, and multiple linear regression were used to test the hypotheses.

Results: The results of multiple regression showed that market orientation significantly predicted revenue per customer, $\beta = 1.64$, $t(141) = 7.66$, $p < .05$; ROA, $\beta = 2.14$, $t(141) = 5.9$, $p < .05$; and product innovation, $\beta = 1.89$, $t(141) = 5.77$, $p < .05$. Participative governance was not significant in explaining revenue per customer, return on assets, and product innovation. Although the results of multiple regression analysis showed that human capital was not significant in explaining revenue per customer or ROA, it significantly affected product innovation, $\beta = .94$, $t(141) = 2.01$, $p < .05$. In addition, the regression indicated that revenue per customer explained 49.7% of the variance, ($R^2 = .497$, $F(5, 125) = 20.10$, $p < .05$, while ROA explained 29.4 %, ($R^2 = .294$, $F(5, 123) = 9.06$, $p < .05$, and product innovation explained 41.2%, ($R^2 = 0.412$, $F(5, 124) = 15.18$, $p < .05$.

Unique contribution to theory, practice and policy: This study contributes to theory of corporate governance by using stewardship theory to underpin research into organizational performance of a member-based agricultural enterprise. The study contributes to practice by suggesting that participation of members and shareholders in organizations may have other benefits, including non-economic ones, but enhancing organizational performance may not be one of them. In terms of policy, the study suggests that dairy co-operatives should put emphasis on acquiring employees with requisite knowledge and skills or their performance may be hamstrung by inadequate intellectual capital to facilitate their innovation and performance.

Keywords: *participative governance, human capital, market-orientation, organizational performance, dairy co-operatives.*

INTRODUCTION

1.1 Background of the Study

The global financial crises and corporate scandals of the 1990s and mid 2000 brought corporate governance into sharper focus (Essen, Engelen, & Carney, 2013). The crises led to the call for stronger shareholder and stakeholder rights in order to hold boards to account (CSFI, 2015). The aftermath of the crises also revealed structural problems and assumptions in the global financial and market systems (Cheney, Cruz, Peredo, & Nazareno, 2014). The American economist and recipient of the Nobel Memorial Prize in Economic Sciences, Joseph Stigliz (2009), in his paper, "Moving beyond Market Fundamentalism to a More Balanced Economy", argued that one of the flaws of market fundamentalism was that it paid no attention to the distribution of incomes or the notion of a good, fair and sustainable society. He called for socially oriented enterprises that are less inclined to exploit those with whom they interact.

What Stigliz (2009) and other researchers were calling for was an alternate form of market organization that is more socially oriented, less exploitative, more democratic and prioritizes labor over capital, and co-operatives fit that bill (Alperovitz & Hanna, 2013). Stigliz went on to opine that from his research, the East Asia Miracle would not have been possible without the role played by the co-operatives in the region's development in the nineties. Ban Ki-moon (2012), the United Nations General Secretary, underlined this paradigmatic finding that co-operatives are a model for inclusive growth, which is defined as growth that creates opportunity for all segments of the society (MacPherson, 2012). According to Ban Ki-moon, with an egalitarian ethos, participatory decision-making, common ownership, and commitment to goals beyond the profit motive, co-operatives are a reminder to the international community that it is possible to pursue both economic viability and social responsibility. Cheney et al. (2014) underlines the same point that co-operatives have an important role in reimagining and reconfiguring the economy as a whole by bringing to the fore another alternative economic and corporate governance system.

1.2 Problem Statement

According to Clarke (2015), corporate governance is overwhelmed by the intellectual constrictions of agency theory and pre-occupation with compliance and regulation, and is unaware of its contribution to inequality in both corporation and wider society (Clarke, 2014; Piketty, 2014). Increasingly, corporate governance research in socio-enterprises such as co-operatives are focusing on stewardship theory in appreciation of broader objectives for member-owned enterprises beyond the profit motive (Liang, Hendrikse, Huang, & Xu, 2015). A stewardship approach in corporate governance has been shown to lead organizations to greater investment in R&D (Hitt, Ireland, & Hoskisson, 2012), long-term orientation (Hiebl, 2015), and greater trust and transparency (Choi, Choi, Jang, & Park, 2014).

One effect of the financial crises of mid 2000 was that the pressures within international financial markets further distanced the most common forms of capitalism from the concerns of the community and the welfare and participation of employees in decision-making (Cheney et al., 2014). The financial crisis led to the call for stronger shareholder and stakeholder rights in order to hold boards to account, strengthening internal audit, and an emphasis on sustainability and long-term strategic considerations (CSFI, 2015; Kumar & Singh, 2013).

Additionally, other researchers such as Stigliz (2009) called for an alternate form of market organization that is more socially oriented, less exploitative, more democratic and prioritizes labor over capital, and co-operatives fit that bill (Cheney et al, 2014; Flecha & Ngai, 2014). Stigliz went on to opine that from his research, the East Asia Miracle would not have been possible without the role played by the co-operatives in the region's development in the nineties.

What makes co-operatives sustainable, according to Narvaiza, Aragon-Amonarizz, Iturrioz-Landart, Bayle-Cordier, and Stervinou, (2016), is their unique characteristics of member ownership and participation and transparency in their operations (Altman, 2015; Birchall, 2012; EACB, 2010). Evidence is growing that the difference between co-operatives and corporations is not in performance as the former can do everything the latter does (Thompson, 2015), but with a democratic structure, an equitable sharing of income and a commitment to the common good of the community and future generations (Hightower, 2012; King, Adler, & Grieves, 2013). In order to better understand the role of participation in governance and the quality of the individual actors, this study investigated the effect of corporate governance, specifically, participative governance and human capital, on the organizational performance of dairy co-operatives in Kenya and was based on stewardship theory.

1.3 Purpose of the Study

The purpose of this study was to investigate the effect of participative governance and human capital on the organizational performance of dairy co-operatives in Kenya.

1.4 Research Questions

a. How does participative governance affect the organizational performance of dairy co-operatives in Kenya?
b. How does human capital affect the organizational performance of dairy co-operatives in Kenya?
c. To what extent does market orientation moderate the relationship between both participative governance and human capital, and organizational performance of dairy co-operatives in Kenya?

2.0 LITERATURE REVIEW

2.1 Theoretical Literature

2.1.1 Stewardship Theory

According to Cheney et al. (2014), when workers participate in decision-making they feel a sense of psychological ownership and belongingness and these result in their productivity and higher performance for the organization. For co-operatives, participative governance is usually associated with the principle of one member, one vote, which balances managerial direction with employee-owners' concerns (Liang et al., 2015). The participation of members leads to cohesion as it gives them voice and authority to monitor management (Dayanandan, 2013; Francesconi & Ruben, 2012).

Firms that embrace a stewardship culture develop a skilled workforce as they see their people as the greatest resource and lifeblood of their businesses (Miller, Breton-Miller & Scholnick, 2008).

Greater educational level of directors has been shown to be associated with receptivity to innovation and technology (N. Kim & Kim, 2015), openness to change, tolerance to ambiguity and introducing control systems (Gottesman & Morey, 2010; Kirca, Hult, Deligonul, Perryy, & Cavusgil, 2010). Higher levels of education lead to better ability to process information, absorb new ideas, and find creative solutions (Barroso, Villegas, & Perez-Calero, 2011; Dalziel, Gentry, & Bowerman, 2011). In a study of electronic firms in Taiwan, Chen (2014) showed that directors' educational level, CEO experience and international experience, had a positive effect on firms' decisions towards internationalization.

2.1.2. Conceptual Framework

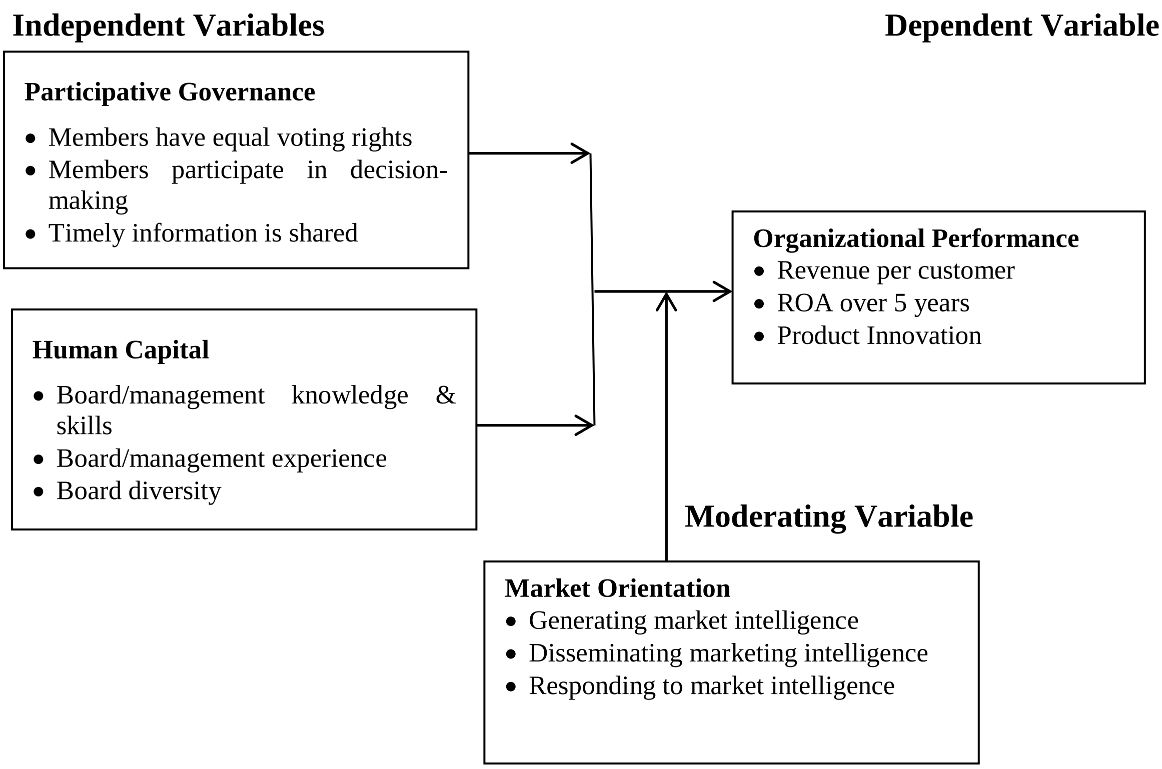

Figure 1: Conceptual Framework

2.2 Empirical Literature

Having voice and choice is a condition for participation in decision-making in an organization (Hendriks & Ewijk, 2016). Voice is a broad rubric that encompasses everything from information and consultation to organized unions and work-based mechanisms like quality teams and financial participation schemes (Timming, 2015). The usage of the terms 'voice' and 'participation' overlaps and is sometimes used interchangeably with words such as involvement, shareholder democracy, empowerment and citizenship, among others (Budd, Gollan, & Wilkinson, 2010). Temkins (2016) observes that the ideal of equality of opportunity, which equal voting rights exemplifies, plays an important part in contemporary social and political discourse. The researcher argues that, although the ideal of equal opportunity would rule out discrimination on the basis of race, religion, gender, social or economic class, in reality the poorly educated and the poor do not have the same opportunity in social and political life as those well educated and connected.

High performing organizations require board members with adequate qualifications, high levels of intellectual ability and experience (Choi, Sul, & Min, 2012). Board members with higher qualifications provide for their firms critical thinking and a rich source of innovative and strategic ideas (Gaur, Bathula, & Singh, 2015). In order for firms to effectively compete and be innovative, they rely on their strategic assets such as knowledge and their dynamic capabilities. For this to happen, the firms need a continual upgrading of their skills and knowledge in order to manage, share and use information effectively (Claver-Cortés, Zaragoza-Sáez, Molina-Manchón & Úbeda-García, 2015). To be competitive, firms depend a lot more on endogeneous factors - individuals' skills and competencies, rather than simply on effectively executed programmed activities. It is the sum of these skills and competencies that are referred to as intellectual capital, while a subset of it – human capital, comprises not only the knowledge, skills and capabilities, but also their capacity to generate all those resources (Vaz, Rocha, Werutsky, Selig, & Morales, 2015).

Market orientation refers to business-oriented organization-wide generation of market intelligence pertaining to current and future customer needs, dissemination of that intelligence across departments, and organization-wide responsiveness to market information (Camarero & Garrido, 2012). As a construct, market orientation is a more precise and operational view of the first two pillars of the marketing concept- customer focus and coordination, the third being profitability. Market orientation, according to Kohli and Jaworski (1990), entails (a) one or more departments engaging in activities toward developing an understanding of customers' current and future needs (Mahmoud, Kastner, & Yeboah, 2010), (b) sharing of this understanding across departments, and (c) the various departments engaging in activities designed to meet select customer needs.

3.0 METHODOLOGY OF THE STUDY

The purpose of this study was to investigate the effect of corporate governance on the organizational performance of dairy co-operatives in Kenya. This section explains the research philosophy, research design, target population, sampling design, data collection methods, research procedures and data analysis methods that were used in this study.

3.1. Research Philosophy and Design

The study adopted the positivist research philosophy and descriptive correlational research design.

3.2. Target Population and Sampling Design

The population of the study consisted of 198 executive directors/managers of active dairy co-operatives in eight counties in the Mt. Kenya region. A sample size of 184 was drawn using stratified random sampling according to the county to which the co-operative belongs. Stratified random sampling was relevant for this study because of the varied geographical distribution of the sample population and the representativeness of the sample size (Saunders, Lewis, & Thornhill, 2016).

3.3. Data Collection and Analysis

Data was collected using self-administered questionnaires. The data was then analyzed using descriptive statistics of frequency, mean, and standard deviation. Additionally, inferential data analysis methods of Pearson's correlation, ANOVA, and multiple linear regression were used to test the hypotheses.

4.0. RESULTS AND DISCUSSIONS

4.1 Demographic Information

Table 1 below represents summary of the demographic results.

Table 1: Demographic Results

Demographic Variables	Results
Gender of the Respondents	Male=67.9% Female=32.1%
Highest Level of Education	Certificate=52% Diploma=34% Bachelors=12% Masters=2%
Age of the Respondents	40-49 years=27.3% 30-39 years=20.1% 21-29 years=18.7% 50-59 years=18% 60+ years=15.8%

4.2 Descriptive Statistics

The study analyzed the mean and standard deviation of the components of participative governance. The results show the mean for "all members in the co-operative equal voting rights", (M = 4.48, SD = 0.93); and the mean for "members participate actively in the AGMs", (M = 4.13, SD = 1.02). For human capital the findings indicated that the mean for "board members and senior management staff have the experience for their roles" was highest at 3.92 (*SD* = 1.03). The lowest mean was for "To what extent does having both male and female represented in the board affect ROA in your co-operative" (*M* = 2.58, *SD* = 1.38). For market orientation, the result revealed the mean for "generates market intelligence needed for present and future needs", (*M* = 3.11, *SD* = 1.38), and the mean for "generates market intelligence needed for present and future needs", (*M* = 2.93, *SD* = 1.38). Table 2 shows these results.

Table 2: Descriptive Statistics

Variable	Constructs	N	M	SD
Participative Governance	All members in the co-operative equal voting rights	141	4.48	.938
	Members participate actively in the AGMs	141	4.13	1.023
	Members receive timely information from the board and management	141	4.27	.948
Human Capital	Board members and senior management staff have knowledge and skills for their roles	141	3.82	1.078
	Board members and senior management staff have the experience for their roles	140	3.92	1.025
	Both male and female are well represented in the board	136	3.50	1.366
Market Orientation	Generates market intelligence needed for present and future needs	141	3.11	1.379
	Disseminates market intelligence within the co-operative	141	2.93	1.382
	Responds to the market intelligence in planning and distributing services and products	141	3.06	1.382

4.3 Regression Analysis and Hypothesis Testing

The study sought to establish the effect of participative governance, human capital, and market orientation on the dependent variable constructs, namely: revenue per customer, return on assets, and product innovation.

4.3.1. Participative Governance

In relation to the effect of participative governance on organizational performance, the results of the regression indicated that revenue per customer explained 50% of the variance, (R^2 = .50, $F(5, 125) = 13.27$, $p < .05$), while ROA explained 26.9%, and product innovation explained 41.2%. It was found that participative governance was not significant in explaining revenue per customer, β = -.94, $t(141)$ = -1.13, $p > .05$; ROA, β = -.778, $t(141)$ = -.544, $p > .05$; or product innovation, β = .929, $t(141)$ = .734, $p > .05$; and the null hypothesis was accepted. Table 3 shows these results.

Table 4: Result of Regression Analysis of Participative Governance

	Revenue per customer				ROA				Product Innovation			
	Model 1		Model 2		Model 1		Model 2		Model 1		Model 2	
Participative Governance	β	t	β	t	β	t	β	t	β	t	β	t
	.236	.625	-.943	-1.13	-1.10	-1.75	-.78	-.544	-.204	-.364	.929	.734
R^2	.446		.497		.269		.294		.380		.412	
Adjusted R^2	.423		.459		.239		.241		.355		.368	
***F*-statistic**	20.099*		13.270*		9.060*		5.514*		15.181*		9.350*	

* $p < .05$.

4.3.2. Human capital

As Table 4 shows, human capital was found not significant in predicting revenue per customer and ROA but significantly predicted product innovation, $\beta = .94$, $t(141) = 2.01$, $p < .05$. Product innovation also explained 41.2% of the variance, ($R^2 = 0.412$, $F(9, 120) = 9.35$, $p < .05$. This result led to accepting the hypothesis that human capital significantly affected organizational performance.

Table 4: Result of Regression Analysis of Human Capital

	Revenue per customer				ROA				Product Innovation			
	Model 1		Model 2		Model 1		Model 2		Model 1		Model 2	
Human Capital	β	*t*	β	*t*	β	*t*	β	*t*	β	*t*	β	*t*
	.048	.153	.010	.013	.693	1.328	-.422	-.316	.940	2.008*	-.155	-.131
R^2	.446		.497		.269		.294		.380		.412	
Adjusted R^2	.423		.459		.239		.241		.355		.368	
***F*-statistic**	20.099*		13.270*		9.060*		5.514*		15.181*		9.350*	

* $p < .05$.

4.3.3. Market Orientation

In relation to the moderating variable, the regression results revealed that revenue per customer predicted 49.7% of the variance, ($R^2 = .497$, $F(5, 125) = 20.10$, $p < .05$, while ROA explained 29.4 %, ($R^2 = .294$, $F(5, 123) = 9.06$, $p < .05$. Product innovation explained 41.2% of the variance, ($R^2 = 0.412$, $F(5, 124) = 15.18$, $p < .05$. Market orientation significantly predicted revenue per customer, $\beta = 1.64$, $t(141) = 7.66$; ROA, $\beta = 2.14$, $t(141) = 5.9$, $p < .05$; and product innovation, $\beta = 1.89$, $t(141) = 5.77$, $p < .05$. However, the results showed that market orientation did not significantly moderate the relationship between corporate governance and organizational performance, $\beta = -2.87$, $t(141) = -1.05$, $p > .05$. This result led to accepting the null hypothesis that market orientation had no significant moderating effect on the relationship between corporate governance and organizational performance of dairy co-operatives in Kenya. Table 5 shows these results.

Table 5: Result of Regression Analysis of Market Orientation

	Revenue per customer				ROA				Product Innovation			
	Model 1		Model 2		Model 1		Model 2		Model 1		Model 2	
Market Orientation	β	*t*	β	*t*	β	*t*	β	*t*	β	*t*	β	*t*
	1.644	7.66*	. -4.20	-2.335*	2.137	5.909*	-1.93	-.615*	1.869	5.77*	-2.868	-1.053
R^2	.446		.497		.269		.294		.380		.412	
Adjusted R^2	.423		.459		.239		.241		.355		.368	
***F*-statistic**	20.099*		13.270*		9.060*		5.514*		15.181*		9.350*	

* $p < .05$.

5.0 DISCUSSION CONCLUSIONS AND RECOMMENDATIONS

5.1 Discussion

5.1.1 Participative Governance

The regression results in this study showed that participative governance was not significant in explaining revenue per customer, $\beta = -.94$, $t(141) = -1.13$, $p > .05$; ROA, $\beta = -.778$, $t(141) = -.544$, $p > .05$; or product innovation, $\beta = .929$, $t(141) = .734$, $p > .05$. These results are corroborated by studies of participatory governance in co-operatives in China which showed that in reality, participation in decision-making is only nominal as most decisions are made by board members and management (Liang et al., 2015). The study found that the distribution of ownership rights and profits were skewed towards a small portion of core members to the exclusion of the majority. Power imbalance, lack of accountability, and resource differentials between various partners may undermine participation its legitimancy (Bell & Stockdale, 2016). Mere presence does not engender participation and neither does representation (Belle, 2016). Meaningful engagement and participation are what characterize learning organizations as they engage in critical reflection (Matsuo, 2015; Newig et al., 2016). Chaundhuri (2016) posits that hat participation is about power and how an empowered membership can demand their space and requires ‘emancipation’ or ‘fostering of critical consciousness’ as a precondition (Aasgaard, Borg, & Karlsson, 2012). Participation is about collaboration, deliberation, involvement, engagement and co-management (Carr, 2015). According to Pozzobon and Zylbersztajn (2013), participative governance comes with “democratic costs”, which are the decision-making costs incurred in managing conflicts of interest and providing incentives for member participation.

5.1.2 Human Capital

Human capital was found not significant in predicting revenue per customer and ROA but significantly predicted product innovation, $\beta = .94$, $t(141) = 2.01$, $p <.05$. Product innovation also explained 41.2% of the variance, ($R^2 = 0.412$, $F(9, 120) = 9.35$, $p < .05$. Other studies have shown that human capital, comprising an organization’s intangible assets such as employee skills and capabilities (Al-Musali & Ismail, 2015), are needed to facilitate growth and development (Lin, 2015). Human capital is the resource an organization has in the workforce and refers to education, skills, and experience of the staff and board of directors (Gottesman & Morey, 2010; N. Kim & Kim, 2015). Barroso et al. (2011) posits that the higher the educational level, the better the ability to process information, absorb new ideas, and find creative solutions. Board directors use their knowledge, experience and networking opportunities to build intellectual capital (Claver-Cortes et al., 2015) and thus creative value for the firm (Berezzinets et al., 2016).

5.1.3 Market Orientation

The results of the regression indicated that revenue per customer predicted 49.7% of the variance, ($R^2 = .497$, $F(5, 125) = 20.10$, $p < .05$, while ROA explained 29.4 %, ($R^2 = .294$, $F(5, 123) = 9.06$, $p < .05$. Product innovation explained 41.2% of the variance, ($R^2 = 0.412$, $F(5, 124) = 15.18$, $p < .05$.

These results are corroborated by Camarero and Garrido (2012) who showed that market orientation is the organization-wide responsiveness to market information. Amin, Thurasamy, Aldakhil, and Kaswuri (2016), who equated market orientation with entrepreneurial orientation, analyzed three dimensions, namely: innovativeness, pro-activeness and risk-taking, and showed a significant relationship with SME performance. A similar study by Fernandez-Mesa and Alegre (2015) showed that firms with more collaboration and entrepreneurial orientation have greater market information to explore market opportunities and thus perform better.

The regression results also indicated that market orientation significantly affected revenue per customer, $\beta = 1.64$, $t(141) = 7.66$, $p < .05$; ROA, $\beta = 2.14$, $t(141) = 5.9$, $p < .05$; and product innovation, $\beta = 1.89$, $t(141) = 5.77$, $p < .05$. Research by Rodrigues and Pinho (2012), based in the North Region of Portugal and by Polo-Pena, Jamilena, and Rodriguez-Molina, (2012a), corroborates the findings of this study by showing that information generation, one of the three dimensions of market orientation used in this study, had a positive effect on performance. In support of the findings of the second dimension of this study, intelligence dissemination, Wang, Holmes, Oh, and Zhu (2016) found that developing human resource and training systems improved sensitivity of employees to customer needs, thus improving organizational commitment and service quality (Iliopoulos & Priporas, 2011; Tsai & Wu, 2011). Polo-Pena et al. (2012a) in their study of organizational responsiveness, the third dimension of market orientation in this study, showed that continuously revising facilities and services to align them to customer wants had a positive effect on firm outcomes.

Although the individual items of market orientation were all shown to be correlated and significantly affected organizational performance, the regression results showed that market orientation did not moderate the relationship between corporate governance and organizational performance, $\beta = -2.87$, $t(141) = -1.05$, $p > .05$. This result led to accepting the null hypothesis that market orientation had no significant moderating effect on the relationship between corporate governance and organizational performance of dairy co-operatives in Kenya.

5.2 Conclusions

The results of multiple regression showed that participative governance was not significant in explaining revenue per customer, return on assets, and product innovation. This result suggests that participation of members and shareholders in organizations may have other benefits, including non-economic ones, but enhancing organizational performance may not be one of them. Further, participative governance comes with democratic costs, decision-making costs incurred in managing the dynamics of member participation. The study found that human capital significantly affected one of the three measurements of organizational performance, product innovation. Although the results of multiple regression analysis showed that human capital was not significant in explaining revenue per customer or ROA, it significantly affected product innovation, $\beta = .94$, $t(141) = 2.01$, $p <.05$. These results lead to the conclusion that dairy co-operatives should put emphasis on acquiring employees with, or developing, knowledge and skills, or their performance may be constrained by inadequate intellectual capital to facilitate their innovation and performance.

The results of this study also showed that market orientation significantly predicted revenue per customer, $\beta = 1.64$, $t(141) = 7.66$, $p < .05$; ROA, $\beta = 2.14$, $t(141) = 5.9$, $p < .05$; and product innovation, $\beta = 1.89$, $t(141) = 5.77$, $p < .05$. These findings showed that developing human resource and training systems improved sensitivity of employees to customer needs, thus improving organizational commitment, service quality and, as a result, a positive effect on firm outcomes. Although the individual items of market orientation were all shown to be correlated and significantly affected organizational performance, the regression results showed that market orientation does not moderate the relationship between corporate governance and organizational performance.

5.3 Recommendations

This study recommends that participation in governance, an important co-operative principle, should be balanced with directive leadership, especially during difficult times, so that it does not compromise their growth and development. Further, the study recommends that in order not to be constrained by inadequate human capital, and to innovate for their growth and performance, dairy co-operatives should invest in skilled leadership with higher academic qualifications. In regard to market orientation, this study recommends that co-operatives invest in strategies and systems that will foster information generation, dissemination and responsiveness in order to serve and produce for the market.

5.4 Recommendation for Further Studies

This study recommends research of other moderators of corporate governance, such as educational level of the CEO or organizational culture in the study of dairy co-operatives in Kenya. Although the individual items of market orientation, the moderating variable chosen for this study, were all shown to be correlated and to significantly affect organizational performance, the regression results showed that market orientation did not moderate the relationship between corporate governance and organizational performance.

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