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Full Length Research Paper

Key factors affecting deviant workplace behavior

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Deviant behaviors manifest in many organizations and all occupations. Deviant behaviors in the workplace may originate from organizational norms and proclivities for self-benefit. The organizational culture influences employees' attitudes. Employees internalize the organizational culture, which transforms their personal attitudes and influences their positive and negative behaviors towards the organization. This study explores the key factors affecting deviant workplace behaviors based on various dimensions such as organizational deviance, interpersonal deviance, leader-member exchange, and corporate culture. The multiple-criteria decision-making analysis method was applied and dimensions developed based on scale factors devised in previous literature. The opinions of experts from industry, the government, and academia were examined. The affecting factors were then weighed and ordered according to their importance. According to the research results, among the key factors affecting deviant workplace behavior, the organizational deviance variable of production deviance has the most significant impact on organizational development. The second most significant factor was anti-organizational behavior, a variable of interpersonal deviance, followed by members' behavior and attribution, a leader-member exchange variable. Businesses are advised to formulate rules that prohibit organizational deviance, while building a supportive organizational culture and enhancing positivity in the workplace to reduce deviant behavior.

Key words: Leader-member exchange, corporate culture, organizational deviance.

INTRODUCTION

Deviant behaviors manifest in many organizations and all occupations. Their prevalence in public organizations may be detrimental to the government and public (Estes and Wang, 2008). As such, organizations and their members will face the possible social and economic consequences of deviant behaviors, such as financial loss and negative social relations (Bolin and Heatherly, 2001). Adopting the theory of behavioral intention

(Fishbein and Ajzen, 1975), a theoretical model of the factors affecting deviant workplace behavior was devised (Vardi and Wiener, 1996). According to the model, deviant behaviors in the workplace originate from organizational norms and proclivities toward self-benefits. With regard to deviant behavior, many historical works of literature (Chi, 2017) have illustrated theoretical assumptions and verifications over the years. These works can be

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categorized based on whether they deal with deviant behavior at the organizational level or at the individual level, and they differ in terms of region, ethnicity, and gender. It is worth studying this issue (or these works) continuously to find out the best direction for improvement.

According to Jin Shu (648)/Lieh-chuan (648), in A.D. 322, the prominent Statesman Wang Tun (322) instigated a military uprising against Emperor Yuan of the *Jin* Dynasty. Based on their relationship with Wang Tun, his cousin Wang Tao and his clan went to the palace to plead guilty. When Chou Po-jen, an upright official, entered the palace, Wang Tao asked him to intercede on his behalf. Although Chou Po-jen seemed indifferent to his request, he persuaded the Emperor of Wang Tun's loyalty and petitioned for him. Unaware of what Chou Po-jen had done, Wang Tao held a grudge against him. When Wang Tun later came into power, he was asked if he wanted to execute Chou Po-jen, to which he did not respond. Thus, Chou Po-jen was executed. After the execution, Wang Tao found in the imperial archives the petitions Chou Po-jen submitted on his behalf. The truth struck him so hard that he cried and lamented, "Although I did not kill Chou Po-jen, he died because of me!" This quote later became a Chinese idiom for "unintentional mistakes." Wang Tun's deviance, and the resulting tragedy, can be attributed to the long-term influence of the organizational culture in the palace and leader-member exchanges (LMX) between the Emperor, feudal vassals, and officials. Similar cases prevail in modern society. Therefore, scholars should discuss deviant behaviors in detail and propose solutions to improve and prevent similar issues from arising.

The frequent interaction between leaders and members during an organization's operations means that their interdependence emerges based on the nature and importance of their jobs. Restricted by limited time and competency, leaders allocate resources selectively, resulting in leader-member exchanges (LMX). Those who more closely interact with leaders are called in-group members, while those with weaker relationships with leaders are out-group members (Varma et al., 1996). Because better rapport exists between leaders and in-group members, they establish loyalty and trust, and, rather than undergoing a simple change in their relationship, develop a mutually beneficial partnership (Liden and Graen, 1980; Dienesch and Liden, 1986). In-group members receive more favors from leaders such as important resources, promotion opportunities, and decision-making power (Graen and Scandura, 1987). Out-group members are limited to their prescribed roles because they perform in greater accordance with the employment contracts (Graen and Cashman, 1975). Leaders adopt a forgiving management approach and attitude towards in-group members' performance and a strict, disapproving approach towards out-group members' performance (Allison and Herlocker, 1994). While in-group members are favored and receive

significant resources, out-group members are likely to be neglected and criticized based on a stricter standard. Consequently, the latter will perceive in-group favoritism (Yukl, 1994). If the leader-member exchange (LMX) causes the difference in treatment of insiders and outsiders to be too obvious, it will result in organizational inefficiency and affect the sustainable development of the organization.

Deviant workplace behavior is defined as "intentional behavior that violates organizational norms and poses a threat to the well-being of an organization" (Robinson and Bennett, 1995). Most people conform to social norms and goals through self-discipline, the breakdown of which can result in organizational deviance (Marcus and Schuler, 2004). Leader-member exchanges (LMX) are established when leaders treat in-group and out-group members differently, forming different types of relationships with subordinates (Graen and Cashman, 1975). This exchange, whether positive or negative, affects subordinates' deviant workplace behaviors, which is harmful to the organization (Harper, 1990). This behavior is caused by workplace experiences, and therefore organizational deviance is likely to occur when members demonstrate their dissatisfaction with their experiences in the workplace or when they are in conflict with organizational requirements or individual behavior (Bennett and Robinson, 2003). The strictness of the norms set by the organization, based on the scale and type, will also affect the probability of occurrence of the deviant behavior. The less strict the rules are, the lower are the chances of deviant behavior and vice versa.

Culture is the "collective programming of the mind that distinguishes the members of one group from others," and a system of collective interaction that affects how the group reacts to the environment (Hofstede, 1980). Corporate culture refers to the sum of a company's philosophy, objectives, policies, values, social responsibilities, corporate image, and other attributes formed during its operating activities. It is the enterprise's institutional choices and behavioral practices observed by all employees (McLeod et al., 1985). Trevino (1986) believed that organizational culture played an important role in deciding the behavior of organization members, while previous studies (Boye and Jones, 1997; Vardi, 2001) suggested that it affects whether employees exhibit deviant workplace behavior. Thus, the effects of corporate culture on deviant workplace behavior should be examined in greater depth.

Currently, most studies on deviant workplace behavior as influenced by organizational culture focus on Mainland China, Taiwan, and other countries with a Chinese-based culture. Because of China's economic emergence in recent years, there has been increasing attention among scholars in Western countries to this phenomenon among Chinese people. Scholars in Taiwan and Mainland China have been actively participating in academic research and have formed a close research network with

Table 1. Comparison of the exchange between leaders and in- and out-group members.

Scholar(s)	In-group members	Out-group members
Dansereau et al. (1975)	Close interaction	Formal relationship
Liden and Graen (1980)	High level of loyalty	Low level of loyalty
Dockery and Steiner (1990)	Good relationship with leaders	Employment relationship with leaders
Podsakoff et al. (1990)	Greater trust in leaders	Greater distrust in leaders
Liden et al. (1993)	Mutually beneficial relationship	Top-down relationship
Deluga (1994)	Great amount of trust, interaction, support, and formal or informal rewards	Low-quality exchange
Yukl (1994)	Assignment of better tasks, increase in salary or special welfare	Formal relationship
Graen and Uhl-Bien (1995)	Mutual trust and respect, allocation of greater responsibilities	Lower level of mutual trust and respect
Pillai et al. (1999)	Higher level of interdependence	Lower level of interdependence
Robbins (2001)	Considered insiders	Considered outsiders

Source: Wang (2004).

international academia, mainly American scholars, in recent years. This is also why these studies are mostly based on the Chinese experience (Chi, 2017).

Because of the sensitivity of the topic of deviant behavior, this study ensured the anonymity of participants by collecting data through questionnaires. Anonymous questionnaires allow for participants' full cooperation and therefore gather data with high validity (Dunlop and Lee, 2004; Johnson and Klee, 2007).

LITERATURE REVIEW

Leader-member Exchange (LMX)

To explore the relationship between leaders and subordinates, Dienesch and Liden (1986) proposed the leader-member exchange (LMX) model, a dynamic development process of initial interaction, authorization by leaders, attribution, and exchange. Among these steps, attribution can be categorized as members' behavior and attribution, leaders' behavior and attribution, and leaders' responses. A leader's response is influenced by the behavior and attribution processes of members and leaders. Eventually, leaders determine whether their subordinates are in- or out-group members based on the leader's attribution of the subordinate's performance.

Leader-member exchange (LMX) involves the dimensions of contribution, loyalty, and affect. If subordinates wish to become in-group members, they must complete their tasks and display their loyalty to their leaders, or develop good relationships with them through flattery (Dienesch and Liden, 1986).

It was found that in-group members are allocated resources before other people, while out-group members enjoy limited resources and information. Therefore, the out-group members have a lower work incentive and job satisfaction, which substantially impacts the leader-subordinate relationship (Graen and Uhl-Bien, 1995). The definitions by foreign scholars of the exchanges between

leaders and in- and out-group members are summarized in Table 1.

Deviant workplace behavior

Deviant workplace behavior occurs when employees either lack motivation to conform to acceptable behavior voluntarily, or become motivated to violate it as normative expectations of the social context (Kaplan, 1975). According to research, 85% of participating employees admitted to displaying deviant behavior, 90% said deviance was a usual occurrence, and 100% had witnessed deviant behavior by other employees (Ogbonna and Harris, 2002). Deviant workplace behavior has become a widespread and acute phenomenon. A study by Coffin (2003) found that 75% of employees reportedly engaged in theft, fraud, vandalism, embezzlement, deliberate absenteeism, and other deviant behavior. It was also found that male workers were more prone to alcohol abuse and females to absence from duty (Lau et al., 2003). Robinson and Bennett (1995) classified deviant workplace behavior into the following categories:

- 1) Production deviance: this includes lethargy, leaving early, and deliberately extending the duration of breaks;
- 2) Property deviance: this includes damaging company equipment and facilities and secretly accepting kickbacks and commissions;
- 3) Political deviance: this includes engaging in social interaction that puts other persons at a personal disadvantage. Examples include gossiping about and ridiculing other co-workers and competing very aggressively; and
- 4) Personal aggression: this includes sexual harassment and sabotaging of other co-workers.

Bennett and Robinson (2000) further divided deviant workplace behavior into two dimensions: interpersonal

Table 2. Types of organizational culture.

Parameter	Developmental	Rational	Hierarchical	Consensual
Organizational philosophy	Creation of the future and idealism	Efficiency, task orientated	Adherence to rules and stability	Interpersonal relations and harmony
Organizational objectives	Innovation, adventures, and growth	Productivity and efficiency	Execution of regulations, stability, and control	Collective wisdom and diverse participation
Information processing	Emphasis on corporate spirit	Outcome-oriented	Regulated and structured	Cohesion and harmony among members
Organizational style	Intuitive	Individualistic	Formal	Collective
Performance appraisal standard	Temporary combinations	Company or enterprise	Hierarchy	Peers (groups)
Source of power	External support and growth	Productivity and efficiency	Stability and control	Cohesion and morale
Base of power	Charisma	Bureaucracy	Regulations	Employees
Decision-making	Intuition	Decisive announcement	Analysis of facts	Participation
Leadership style	Risk-centered	Goal-centered	Conservative and cautious	Caring and supportive
Compliance	Commitment to values	Contractual agreement	Monitoring and control	Commitment to process
Evaluation of members	Intensity of efforts	Level of productivity	Adherence to formal standards	Quality of relationships
Career motives	Growth	Accomplishment	Security	Group

Sources: Quinn (1988) and Song and Zhang (2003).

and organizational deviance. Interpersonal deviance refers to harmful acts targeting specific employees, such as mocking or verbally attacking other people. Organizational deviance refers to actions that deliberately violate organizational norms, such as private discussion of confidential business information, not taking work seriously, and stealing company property. Employees faced with unfair treatment in the workplace or work pressure may respond by exhibiting deviant behavior. In a study of employees in Hong Kong, perceived ambiguity, perceived supervisor interpersonal injustice, and perceived customer interpersonal injustice as daily sources of workplace pressure were identified (Yang and Diefendorff, 2009). According to their research results, these sources of pressure induce negative emotions and provoke employees' every day interpersonal and organizational deviance. However, this process was also moderated by employees' conscientiousness and agreeableness. Negative emotions were more likely to induce workplace deviance when employees were less conscientious and agreeable.

All types of workplace deviance represent a rift in the employee–organization relationship. From the perspective of social exchange, management should attempt to fulfill its promises towards employees and treat them fairly while establishing favorable social bonds to foster their attachment and sense of identity towards the company. This can effectively reduce employees' deviant behavior (Wu and Jiang, 2005).

Organizational culture

Quinn and McGrath (1985) developed the Competing Values Framework based on the human cognitive system,

and characterized the four forms of organizational culture as being developmental, rational, hierarchical, and consensual, as summarized in Table 2.

Analytic hierarchy process (AHP)

The analytic hierarchy process (AHP) is a decision-making method developed by Thomas L. Saaty, a professor at the University of Pittsburgh, for a study on the contingency plans of the United States Department of Defense in 1971. The method is mainly used to handle uncertain multiple-criteria decision-making problems (Deng and Zeng, 1989). It helps decision makers systematize complex problems and delineate various aspects into a hierarchy, followed by a quantitative judgment for the identification and integrated evaluation of the underlying structure. The method enhances decision makers' understanding of the situation and reduces the risk of making the wrong decisions (Deng, 2005). The analytic hierarchy process (AHP) is advantageous because it can integrate the opinions of experts and decision makers, and based on its mathematical theoretical basis, display any errors in their consensus through a consistency test. However, a drawback is the increased complexity of pairwise comparisons when a greater number of variables exist (Millet and Harker, 1990).

The assumptions of the analytic hierarchy process (AHP) include the following seven conditions (Deng and Zeng, 1989):

1. All systems and problems can be delineated into classes or components for evaluation, forming a hierarchical structure with a directional network.

Table 3. Explanation of the key behavioral factors affecting deviant workplace behavior.

Goal	Level (Dimension) ¹	Level 2 (Criterion)	Explanation
Key Behavioral Factors Affecting Deviant Workplace Behavior	A) Organizational deviance	A1. Production deviance	Lethargy, leaving early, extending the duration of breaks, etc.
		A2. Property deviance	Damaging company equipment and facilities, secretly accepting kickbacks and commissions, etc.
		A3. Perception of situational factors	Individuals' negative emotions and consequent deviance due to company policies and leadership style
	B) Interpersonal deviance	B1. Political deviance	Engagement in social interaction that puts other persons at a personal disadvantage, such as gossiping about and ridiculing other co-workers and competing non-beneficially
		B2. Personal aggression	Sexual harassment, sabotaging other co-workers, etc.
		B3. Anti-organizational behavior	Verbal or physical attacks on the organization or voluntary turnover
	C) Leader-member exchange	C1. Leaders' behavior and attribution	Attribution and explanation of subordinates' behavior and competency as well as the determination of their trustworthiness and prospects based on their competency and loyalty
		C2. Members' behavior and attribution	Expected impressions made on leaders; expected rewards, support, and rights granted by leaders; attribution of the tasks and duties assigned by leaders
		C3. Leaders' response	Determining whether subordinates are in- or out-group members based on the leader's attribution: further interaction or cooperation with the in-group and maintenance of formal relationships with the out-group
	D) Organizational culture	D1. Developmental	Creation of the future, idealism, and pursuit of innovation, adventures, and growth
		D2. Rational	Task-oriented culture, pursuit of productivity and efficiency
		D3. Hierarchical	Adherence to rules, pursuit of stability, execution of regulations, and stability control
		D4. Consensual	Interpersonal relations, harmony, collective wisdom, and diverse participation

2. Each element in the hierarchy is assumed to be independent of all the others and can be evaluated based on an element or all elements above it.
3. During evaluation, the scale of absolute values can be converted to a ratio scale.
4. After pairwise comparison, the reciprocal matrix is symmetric about the main diagonal and a positive reciprocal matrix can be used.
5. Preference relations fulfill the condition of transitivity, but intransitivity is also allowed, because complete transitivity is difficult to achieve. However, the consistency of the

- preferences must be tested to determine the level of inconsistency.
6. The priority weight of each element is obtained by the weighted principle.
7. Any element in the hierarchical structure, irrespective of its priority weight, is related to the overall goal.

Based on the referenced academic papers and the analytic hierarchy process (AHP) research framework, level 1 (dimension) and level 2 (criterion) were derived for evaluation. For leader-member exchanges (LMX), three attribution

processes in a model by Dienesch and Liden (1986) were adopted as the evaluation factors. In addition, the three dimensions required to become in-group members (Dienesch and Liden, 1986), namely contribution, loyalty, and affect, were also involved. The factors are explained in Table 3.

MATERIALS AND METHODS

This study analyzes the key factors affecting organizational deviant behavior by employing the analytic hierarchy process (AHP). Questionnaires were distributed to gather the opinions of experts from industry, government, and

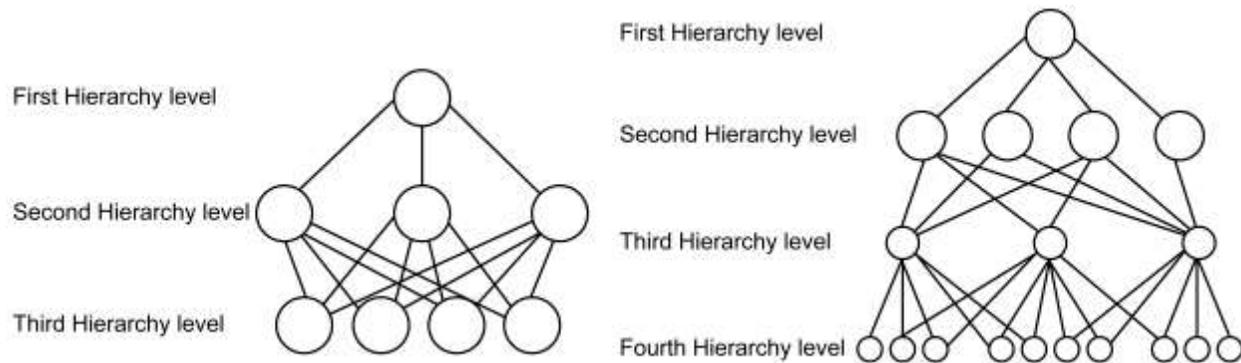


Figure 1. Complete and incomplete hierarchical structure.
Source: Saaty (1977).

Table 4. The AHP evaluation scale.

Scale	Definition	Explanation
1	Equal importance	Two elements contribute equally to the objective
3	Weak importance	Experience and judgment slightly favor one element over another
5	Essential importance	Experience and judgment strongly favor one element over another
7	Very strong importance	One element is favored very strongly over another, its dominance demonstrated in practice
9	Absolute importance	The evidence favoring one element over another is of the highest possible order of affirmation
2, 4, 6, 8	Intermediate values	When compromise is needed

Source: Rong (2011).

academia. The factors were then ranked according to the priority weights assigned by the experts.

For the items considered top priorities, this study makes suggestions for improvement. The opinions of scholars, experts, and decision makers at each level were collected for the pairwise comparisons between every two elements based on a nominal scale. After quantifying the opinions, pairwise matrices were constructed. A set of eigenvectors for each matrix was computed and translated into the priorities of the elements at each hierarchical level. Eventually, the maximum eigenvalue was calculated to determine the relative weights of the decision criteria, which serve as the consistency indices of the comparison matrices, to provide a reference for the decision-making process (Rong, 2011).

As the analytic hierarchy process (AHP) relies on professional judgment, the appropriate number of participating experts is 10 to 15 respondents (Deng, 2005). To ensure higher quality and predictability of the research results, the experts must possess sufficient understanding and professional knowledge and skills in a field related to the research. In this study, senior managers with more than ten years of experience in administrative management, government officials in related departments like the Police Agency and City Government, and scholars in related fields such as organizational theory, strategic management, and operational research were invited to complete the questionnaire. Exploring both theoretical and practical viewpoints provides a comprehensive perspective from which to determine the key factors affecting deviant workplace behavior.

The analytic hierarchy process (AHP) method is employed by experts and scholars to assess the various elements of the hierarchical structure. Analysis is conducted by setting up a matrix and the scale of assessment in order to perform the pairwise

comparison. In addition, steps are taken to find the eigenvector in order to compare the level of order elements and verify the consistency of paired comparison matrices. The hierarchical structure shown in Figure 1 is divided into two kinds; one is the complete level, where the two adjacent elements are related, and the other is the incomplete level, which indicates that the adjacent two layers of elements do not necessarily have a complete relationship.

The analytic hierarchy process (AHP) evaluation scale comprises five levels: equal importance, weak importance, essential importance, very strong importance, and absolute importance, which are quantified into a nominal scale of indices 1, 3, 5, 7, and 9. There are four intermediate values between the five basic levels—2, 4, 6, and 8. Each level of the scale is explained in Table 4.

The analytic hierarchy process (AHP) includes the following steps: (1) creating a pairwise comparison matrix, (2) obtaining the maximum eigenvalue of the matrices, (3) computing the weight of each decision item, and (4) conducting consistency tests on the matrices. Wind and Saaty (1980) suggested that the consistency of the matrix should be examined using a consistency index (CI) and consistency ratio (CR)—the higher the consistency, the more acceptable the matrix values. A matrix is considered to have passed the consistency test when $CR < 0.1$ and $CI < 0.1$. Weighting in the analytic hierarchy process (AHP) mainly relies on experts or decision makers, who conduct pairwise comparisons of every two criteria to evaluate the relative importance of the items and use the maximum eigenvalue of the comparison matrices to determine the relative weights. As a result, the analytic hierarchy process (AHP) can more accurately measure the differences between criteria than conventional weighting methods. Therefore, this study uses the analytic hierarchy process (AHP) to compute the weights of

Table 5. Weights and ranking of key behavioral factors affecting deviant workplace behavior.

Goal	Level 1 (Dimension)	Rank	Weight	Level 2 (Criterion)	Rank	Weight	Overall rank
Key behavioral factors affecting deviant workplace behavior C.I.H.=0.04877 C.R.H.=0.05419	Organizational deviance CI=0.04052 CR=0.06986	1	0.36367	Production deviance	1	0.44169	2
				Property deviance	2	0.29317	6
				Perception of situational factors	3	0.26514	9
	Interpersonal deviance CI=0.05327 CR=0.09184	2	0.31520	Political deviance	3	0.23271	11
				Personal aggression	2	0.27841	8
				Anti-organizational behavior	1	0.48880	1
	Leader-member exchange CI=0.00751 CR=0.01295	3	0.17137	Leaders' behavior and attribution	3	0.25056	10
				Members' behavior and attribution	1	0.37982	3
				Leaders' response	2	0.36962	4
	Corporate culture CI=0.07199 CR=0.07999	4	0.14976	Developmental	2	0.29111	7
				Rational	3	0.20129	12
				Hierarchical	1	0.34729	5
				Consensual	4	0.16031	13

decision items.

RESULTS AND DISCUSSION

This study explores the key factors affecting deviant workplace behaviors based on various dimensions such as organizational deviance, interpersonal deviance, leader-member exchange, and corporate culture. The multiple-criteria decision-making analysis method was applied and dimensions developed based on scale factors devised in previous literature. Based on the results of the study, we would like to put forward suggestions for improvements of the approach.

The study uses the analytic hierarchy process (AHP) hierarchy for computations. Based on previous academic papers, four dimensions and 13 criteria were derived and then ranked according to their computed weights. During the analytic hierarchy process (AHP), pairwise comparison matrices are constructed and the CI and CR of each matrix calculated to test its consistency and that of the overall hierarchy. If $CI < 0.1$ and $CR < 0.1$, the comparison matrix is considered consistent. The calculated weights of all the criteria in this study match the consistency requirement. The weights and rankings are listed in Table 5. Therefore, the organization should establish formal and transparent channels of communication to encourage employees to interact with each other in a rational and respectful manner. At the same time, organization leaders should avoid vicious competition through improper methods to avoid vicious competition and political infiltration within the organization (He et al., 2014).

The results indicate that among the key behavioral

factors affecting deviant workplace behavior, organizational deviance has the highest weight (0.36367), followed by interpersonal deviance (0.31520). Among the criteria for organizational deviance, production deviance has the highest weight (0.44169), indicating that deviant behaviors such as lethargy, leaving early, and extending the duration of breaks have the greatest impact on the organization. These findings are aligned with studies by other scholars (Coffin, 2003; Lau et al., 2003). In the overall ranking of the criteria, anti-organizational behavior was assigned the highest weight (0.48880). This shows that behaviors such as verbal and physical attacks on the organization and voluntary turnover have the most significant impacts on organizational development. This result is consistent with the findings of other scholars (Wind and Saaty, 1980; Elsbach and Bhattacharya, 2001).

This study adopted the analytic hierarchy process (AHP) to evaluate the dimensions and criteria at each hierarchical level, before ranking them based on their priorities. The opinions of experts from industry, government, and academia show that production deviance, a variable of organizational deviance, is the most damaging to organizational development. Behavior that reduces employees' productivity such as absenteeism and lethargy, hinder the overall performance of the organization and its sustainable development. Related academic papers also show that situational factors in the workplace are crucial determinants of employees' production deviance. If organizational and career development can focus on building an environment in which both managers and employees can leverage their skills and strengths, while continuous and formal efforts are put into developing and improving

human resources based on the needs of employees and the organization, the cost of employee turnover and incidence of production deviation can be lowered.

Therefore, companies are advised to regularly evaluate how well employees have adapted to the organization, as well as to their duties, teams, and managers. This can deter the production deviance resulting from a low-level of adaptation. Effective education and training should also be provided to leaders to develop their empathy and ability to offer support, so that they can adjust their management based on a true understanding of employees' feelings and ensure a friendly working environment that can mitigate production deviance. To effectively reduce interpersonal deviance, a supportive organizational culture and positive working atmosphere should be developed to expand manager–employee interaction patterns and encourage employees to voice their opinions and feelings and act in the public interest outside their duties. Furthermore, regulations, promotional measures, training, and courses related to the prevention of interpersonal deviance should also be developed to curb deviant behavior (Liu et al., 2010).

There are two approaches to organizational discipline management, namely preventive and corrective. The former prevents misbehavior by encouraging members' compliance with organizational standards and rules, while the latter stops further actions when misbehavior occurs to ensure the conformity of future behavior. Another factor that can abate deviant workplace behavior is material or financial rewards, which enhance employees' sense of belonging and morale and reduces their job dissatisfaction. In addition, social exchange can lessen workplace deviance when used to improve the working environment and reduce pressure and negativity at the source. Moreover, as the pressure relief valve of the company, a complaint handling system can moderate employees' resentment arising from their job dissatisfaction, thereby alleviating labor disputes. It is recommended that future studies explore and test these factors to complement existing research on deviant workplace behavior.

CONFLICT OF INTERESTS

The authors have not declared any conflict of interests.

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Full Length Research Paper

Determinants of risk disclosures in Kenyan listed companies

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The main objective of this study was to examine the relationship between risk disclosure and firm characteristics of companies quoted on the Nairobi Securities Market. The study involved all firms that were listed on the NSE between years 2010 and 2016, except the financial institutions. Annual reports were used to determine the variables. A regression analysis was conducted using the random effect model to determine the relationship between the disclosure index and firms' characteristics. The results show that risk disclosure was positively related to gearing level, company size, profitability, and the industry type. However, it was not found to be related to the liquidity level, ownership and board composition.

Key words: Risk disclosure, firm characteristics, annual reports, Nairobi stock exchange.

INTRODUCTION

In recent years, the concepts of "risk" and "risk management" have received significant attention. This is mainly due to the corporate scandals and corporate failures witnessed worldwide since the 1990s. There has also been debates on how risk information should be communicated to stakeholders. For example, American Accounting Association/Financial Accounting Standards Board (AAA/FASB) (1997) found that risk information provided in the annual reports of US firms was insufficient. The Institute of Chartered Accountants in England and Wales (ICAEW) (2002) encouraged UK companies to disclose more risk information in their reports.

According to Beretta and Bozzolan (2004), financial risk disclosure may not be sufficient to inform stakeholders

about the financial position of the firm. This is because market and operating risks also affect the performance of the firm and may not be captured in the financial statements. This means that the narrative section of the annual reports is very important in communication risk information (Robb and Zarzeski, 2001). According to Dunne et al. (2003), the narrative section in the annual reports helps stakeholders to understand risks and the risk management strategy of the firm.

Risk disclosures help to increase investors confidence due to the increased transparency (Linsley and Lawrence, 2005; Abraham and Cox, 2007). The level of risk can be used in decision making, help to decrease the cost of capital and can be used to determine the market value of the firm more accurately (Beretta and Bozzolan,

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2004; Abraham and Cox, 2007).

According to Schrand and Elliott (1998), it is not easy to define risk due to the many factors that can affect a business operations, either negatively or positively. Risk emanates from the variability in the distribution of future outcomes (Rajab, 2009). Lajili and Zéghal (2005) define risk as the uncertainty that is associated with both a potential loss or gain. Most expert define risk as the variability where probabilities can be assigned and uncertainty as variability where probabilities cannot be assigned (Linsley and Shrives, 2005; Watson and Head, 2016).

Risk disclosure has been defined by Beretta and Bozzolan (2004) as the communication of information on factors such which have potential to affect expected returns. Hassan (2009) defines corporate risk disclosure as inclusion in the financial statements of information about managers' estimates and judgments about operational, economic, political and financial risks. According to Linsley and Shrives (2006), disclosures are regarded as risk disclosures, if the provided information has impacted or will impact on the firm sometimes in future.

From these definitions, it is clear that risk disclosure is about presenting information about uncertain outcomes, good or bad.

LITERATURE REVIEW

Many of the previous studies on risk disclosures have been in developed countries such as US, Canada, UK and Germany (Beretta and Bozzolan, 2004; Linsley and Shrives, 2006). Linsley and Shrives (2005) examined annual reports of UK companies and found that firms can reduce cost of capital by disclosing more risk information. Dietrich et al. (2001) found that disclosing more forward-looking information in the annual reports leads to improved market efficiency. Kajüter (2001) examined risk disclosures in the annual reports of 82 non-financial German companies, and found that the companies did not adopt a systematic approach to risk reporting and, therefore, the disclosure of risk information was restricted.

Woods and Reber (2003) found that German companies disclosed more information due to the requirements of GAS5. Beretta and Bozzolan (2004) studied 85 companies listed on the Italian Stock Exchange and found that firms disclosed past and present risks but not future risks. Elmy et al. (1998) found that US companies disclose very little risk information. Similar results were obtained by Collins et al. (1993) who found that UK companies disclosed past present and future information about risk but at a limited scale. Amran et al. (2008) studied Malaysian firms and had similar results.

Determinants of RD and hypothesis development

Various studies have shown that risk disclosures are affected by different firm characteristics. These firm characteristics include: size, liquidity, industry type, profitability, gearing, ownership, board composition, audit committee size, and role duality. These are referred to as risk disclosure determinants and are discussed below:

Size

A number of studies have shown that the firm's size affect the level of risk disclosure. Studies such as Hossain et al. (1995), Beattie et al. (2004) and Amran et al. (2008) have found a positive relationship between size and risk disclosures. Some studies, for example, by Hassan (2009) and by Lajili and Zéghal (2005) found no significant relationship between the two variables.

In order to increase investors' confidence, justify the higher returns and to decrease political sensitivity, larger firms disclose higher level of risk information (Abraham and Cox, 2007; Hassan, 2009). The second reason why larger companies disclose more information is because it is less costly to disclose additional information compared to smaller companies.

Liquidity

In line with the signalling theory, firms will disclose more risk information if their liquidity is high in order to distinguish themselves from low liquidity firms. Research on the influence of liquidity on the extent of risk disclosures have shown mixed results. Marshall and Weetman (2007) and Elzahar and Hussainey (2012) produced results that support the signalling theory, because they found that there is a significant relationship between liquidity and risk disclosures.

Mangena and Pike (2005) found no statistically significant relationship between liquidity and risk disclosure in annual reports. Wallace et al. (1994) found a negative relationship between liquidity and risk disclosures indicating that high liquid companies disclose less information compared with companies with lower liquidity.

Industry type

Due to the fact a firm would want to be appreciated in the market, it is likely to disclose the same level of risk disclosures as other firms in the same industry. Firms in the same industry are also likely to disclose the same level of risk disclosures because they face the same professional and legal pressures (Touron, 2005; Hassan, 2009). Several studies have found a positive relationship

between risk disclosures and industry type (Hassan, 2009). However, there are other studies that have not found any relationship between the two variables (Beretta and Bozzolan, 2004).

Profitability

Agency theory expects that high profitable companies report more information including risk information. This is because managers in such organisation want to justify their performance to the stakeholders. Studies have provided mixed results on the relationship between profitability and risk disclosures. For example, Al-Shammari (2014) show a significant positive relationship between the two variables. Elzahar and Hussainey (2012) and Mousa and Elamir (2013) find a negative relationship.

Gearing

Based on agency theory, high-g geared firms have more agency costs and therefore need to disclose more information (Jensen and Meckling, 1976). In order to send positive signal to stakeholders about the firm's ability to meet its obligations, managers of high-g geared firms are likely to disclose more risk information. Deumes and Knechel (2008) and Taylor et al. (2010) found a positive relationship between gearing and risk disclosures while Abraham and Cox (2007) and Rajab and Handley-Schachler (2009) did not find any relationship.

Ownership

Increasing the number of owners can help solve the problem of monitoring an organization (Schipper, 1981). Disclosures tend to increase with increased number of shareholders. This is because firms, in order to provide information to stakeholders, will provide additional information. Firms with dispersed ownership are likely to have higher agency costs, due to the pressure by the stakeholders to provide more information (Mohobbot, 2005). There are many studies that have found that firms with dispersed ownership provide more information than firms with concentrated ownership. For example, Chen et al. (2008) found that family-owned firms provide less information than non-family owned businesses. Others who have found a positive relationship between risk disclosures and increase in dispersion of ownerships include Mohobbot (2005) and Mangena and Tauringana (2007). Konishi and Ali (2007) found an insignificant relationship between ownership and risk disclosures while Deumes and Knechel (2008) found a negative relationship.

Board composition

Good corporate governance principles require that the board have a mix of executive directors and non-executive directors. Non-executive directors are expected to provide unbiased independent advice to executive directors, due to their lack of association with the firm. Non-executive directors are therefore expected to be more effective in monitoring the firm, and firms with a high-proportion of non-executive directors are expected to be more effective in disclosing information (Fama and Jensen, 1983). Cheng and Courtenay (2006), and Abraham and Cox (2007), have found a positive relationship between the level of risk disclosures and the proportion of non-executive directions. Ho and Wong (2001) and Haniffa and Cooke (2002) found no relationship between the two variables.

Audit Committee size

Good corporate governance require that a firm has an Audit Committee that has a number of non-executive directors. It also required that an Audit Committee should be large enough so as to have a large skills set (Mangena and Pike, 2005). One of the main function of the Audit Committee is to review the firm's internal control systems (Smith Committee, 2003). Nahar et al. (2016) found a positive relationship between risk disclosures and the Audit Committee size. However, Mangena and Pike (2005) found no significant relationship between the two variables.

Role duality

Role duality occurs if the Chairman of the Board of Directors is also the chief executive officer (CEO). Where a person holds both positions, the board's oversight is impaired due to the concentration of decision-making power (2008). Good corporate governance requires that the two roles are separated. Previous studies have produced mixed results on the role of role duality on risk disclosure. For example, Vandemaele and et al. (2009) found a positive relationship between the two variables, while Forker (1992) and Haniffa and Cooke (2002) found a negative relationship.

Accordingly, the following hypothesis was tested:

H₀: there is no significant relationship between risk disclosures and firm characteristics of companies.

RESEARCH METHODOLOGY

This research used the positivist approach. This is in line with most research studies on information disclosures in reports of firms (Amran et al., 2008; Rajab and Handley-Schachler, 2009;

Mohobbot, 2005). In this study, the values of variables were determined using analyses of annual reports of the listed companies at Nairobi Securities Exchange (NSE).

Sample and data

The sample consisted of final reports of non-financial companies that are listed on the Nairobi Securities Exchange (NSE). The finance institutions were removed from the sample because they are required by regulations to disclose certain risk information. This is inline with several studies such as by Linsley and Lawrence (2005), Abraham and Cox (2007), and Elzahar and Hussainey (2012). Annual reports of companies from 2010 to 2016 were used to collect risk information and other company characteristics.

Risk disclosure index

Researchers have used content analysis and disclosure indices to measure extent of disclosures (Wachira, 2017). This study used risk disclosure index.

Through a pilot study, risk disclosures items were determined. In the determination of risk disclosure index, an item was given a score of zero if it was not disclosed and a score of one if it was disclosed (Madrigal et al., 2015). To calculate the risk disclosure index, the following formula was used.

$$RDI_j = \frac{\sum rd_i^m}{n_j} \times 100$$

Where, RDI_j is the risk disclosure index for j th firm, rd_i is 0 if the item was not disclosed and 1 if the item was disclosed; n_j was the maximum number of items that could be disclosed by j th firm. Un-weighted disclosure index was used because there was no way of determining weights to use.

Reliability, validity and transferability

An independent evaluator was used to test the reliability of the disclosure index. Where the results obtained by the study were compared with the results of the independent evaluator. Additionally, accountants from the companies were asked about the accuracy of the index until they agreed that it properly reflected the risk disclosure for their companies.

Data analysis

Panel data, which consisted of longitudinal and cross-sectional data for the period 2010 to 2016 was used. The model below was therefore tested.

$$RDI = \beta_0 + \beta_1 GR + \beta_2 SZ + \beta_3 PR + \beta_4 LQ + \beta_5 ID + \beta_6 ON + \beta_7 ND + \beta_8 DL + \beta_9 AT + \beta_{10} AC + \varepsilon$$

Where: RDI: Risk Disclosure index; GR: Gearing ratio; SZ: Size of the company; PR: Profitability; LQ: Liquidity of the company; ID: Industry to which the company belongs; ON: Ownership structure; ND: Proportion of non-executive directors (Board Composition); DL: Leadership structure; AT: Auditor type; AC: Presence of the Audit Committee; and ε : Error term (residual value).

Because the research involved panel data, it was not possible to use the ordinary least squares method to estimate the parameters in the regression model (Kohler and Kreuter, 2009) (Table 1). In estimating parameters in panel data, use is made of the fixed-

effects or the random-effects model. Statistically, the fixed-effects model is the model for panel data multivariate analysis. However, sometimes the random-effects model produces better estimators. The Hausman test (Hausman, 1978) is used to determine which of the two would produce the best results.

RESULTS

Multivariate analysis

In a panel data analysis, one has to choose whether to use the fixed-effects model or the random effects model. Hausman test (Hausman, 1978) is used to test whether the coefficients estimated by the fixed-effect model and the random effect model are the same. Significant P value shows that coefficients are different and therefore the fixed effect model should be used.

In this case the χ^2 (5) had a value of 20.32 and a $\text{Prob} > \chi^2 = 0.011$. This means that the χ^2 was significant at 5% level of significance and therefore the fixed-effects model was more appropriate to use in the regression analysis. However, after running the fixed-effects regression some of the dummy variables that do not change over time get omitted from the model. A time-invariant variable is omitted from the fixed-effects model because such models are designed to study the causes of changes within the entity being studied (Kohler and Kreuter, 2009). The regression analysis was therefore conducted using the random effect model and the results were obtained.

The results obtained indicates that gearing, size, profitability, and the industry in which a company operates were significant at 5% level of significance. Liquidity, ownership, presence of non-executive directors, were not significant at 5% level of significance. Audit type, leadership structure and the presence of an audit committee were not included in the model because the data obtained was the same for all companies studied.

DISCUSSION

Gearing

According to the findings, gearing does affect the level of risk disclosures. This agrees with studies such as by Taurigana and Chithambo (2016). This does not agree with several studies such as by Elzahar and Hussainey (2012), which found that gearing does not significantly affect the level of risk disclosures. According to this study, a high geared company discloses more risk information. This could be due to the need to assure stakeholders about its viability.

Size

The finding in this study is that the level of risk disclosure

Table 1. Regression results.

Variables	Coefficient	Newey-West Standard Errors	T-test	$P > t $
Constant	2.25	0.04	1.35	0.775
GER	-0.22	0.19	-1.95	0.017
SIZ	0.75	0.14	11.45	0.002
PRO	0.05	0.12	2.05	0.003
LIQ	0.32	0.18	4.04	0.114
OWN	0.69	0.24	3.23	0.126
NED	0.45	0.45	1.05	0.152
IN1	-0.24	0.15	-2.10	0.105
IN2	-0.52	0.12	-2.43	0.002
IN3	-0.33	0.42	-1.65	0.151
IN4	-0.52	0.09	-3.42	0.003
IN5	-0.42	0.22	-1.95	0.005
IN6	-0.54	0.11	-4.99	0.012
IN7	-0.09	0.21	-1.85	0.242
IN8	-0.11	0.25	-1.45	0.377
IN9	-0.19	0.33	-1.21	0.768
COU	-0.16	0.23	-1.46	0.300

is positively affected by the size of the company. This finding is consistent with previous findings such as by Mohobbot (2005), Linsley and Shrivs (2005), and Madrigal et al. (2015). This supports the stakeholder theory which posit that larger firms are likely to disclose more information because they have many different stakeholders (Wachira, 2017).

Profitability

Profitability was found to have a positive influence on the level of risk disclosures. This finding agrees with studies by Singhvi (1967) and Abu-Nasar and Rutherford (1994). The findings contradict several studies which have found a negative relationship between profitability and risk disclosures (King and Lenox, 2001). For example, King and Lenox (2001) found that risk disclosures reduce profitability because of the costs it entails. It also contradicts findings by Stanwick and Stanwick (2006) and, Elzahar and Hussainey (2012), who found no correlation between financial performance and risk disclosures.

The positive association between profitability and risk disclosures can be explained by legitimacy theory. Very profitable companies may disclose more information in order to justify the level of their reported profits (Haniffa and Cooke, 2005). This positive association can also be explained using the agency theory. According to the agency theory, in order to justify their higher pay, managers in high profitable companies are likely to disclose more information (Wachira and Jankowicz, 2017).

Industry

The relationship between risk disclosures and the industry that the firm belongs to was found to be positive and significant. These findings agree with findings by Elzahar and Hussainey (2012) and Madrigal et al. (2015), but contrast with most of the studies on risk disclosures (Abraham and Cox, 2007). Stakeholder pressure and associated political pressure can explain why an industry in which a company operates influences the level of risk disclosures.

Liquidity

This study finds that there is no significant relationship between risk disclosures and the liquidity of a company. This finding agrees with Al Shammari et al. (2008) and Elzahar and Hussainey (2012) who found no relationship between the two variables.

Ownership

The study found a no significant relationship between ownership and level of risk disclosures. These findings disagree with Deumes and Knechel (2008) who found a negative relationship and with Konishi and Ali (2007) who found positive association between the two variables.

Board composition

The result of this study indicates that the proportion of

independent directors did not affect risk disclosures. This study agrees with the findings of Ho and Wong (2001) and Haniffa and Cooke (2002) who found no relationship between the two variables, but disagrees with the findings of Cheng and Courtenay (2006), and Abraham and Cox (2007), who found a positive relationship between the level of risk disclosures and the proportion of non-executive directors.

Conclusions

From the analysis, four factors, namely gearing level, company size, profitability and industry type were found to have positive relationship with risk disclosures. No significant relationship was found between risk disclosures and liquidity, ownership and board composition. The fact that the four variables have positive relationship with risk disclosures is an indication that legitimacy, stakeholder and agency theories can be used to explain why listed companies in Kenya disclose risk information.

Limitations of the study

Though an attempt has been made to use a longitudinal study, the time covered is short: only seven years. A study that covers a longer period can help reveal more information of the risk disclosures practised in Kenya. This study, however, covers a longer period than most risk disclosures studies that are cross-sectional.

The sample consisted of listed companies only. Because of the monitoring by the Capital Markets Authority (CMA) and listing requirements of the Nairobi Securities Exchange (NSE), listed companies are likely to disclose more information compared to unlisted companies. They are also in the public limelight because they are required to publish some pertinent information. The study, therefore, is limited in the sense that it did not include companies that are small and are not closely monitored by NSE and CMA.

In this study, only annual reports were used. Annual reports may not capture all the disclosed information because companies may have used other media, such as websites and stand-alone reports. Use of annual reports, however, is consistent with many risk disclosures studies due to the fact that they are the most important documents.

Content analysis was used for this study. Use of content analysis can be criticized for being subjective because people can interpret the same information differently. To minimize errors an independent evaluator was used to analyse the information and the result compared with the findings of the main study. The independent evaluator was an accountant with one of the main auditing firms with good understanding of risk disclosures. This was meant

to make the data obtained more reliable.

Further research

Investigation should be done on corporate social responsibility information disclosures in reports other than the annual reports. This is because as risk disclosures develops, more and more reports apart from the annual reports will disclose more social responsibility information. This research only covered companies listed on the stock market. Further research should be conducted into companies that are not listed on the stock market so as to compare the findings of the listed companies and those of others.

CONFLICT OF INTERESTS

The author has not declared any conflict of interests.

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Full Length Research Paper

The joined-up strategic planning of cultural service provision: What are the routes of accountability?

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The debate on accountability in collaborative working for public service delivery is still opened. However, the literature shows research challenges in extending knowledge on critical issues on routes in which accountability are adopted in the Joined-Up Government. This is the reason why public management literature focused on case studies within joined-up services provision. Notwithstanding, an extended understanding on joined-up strategic planning and delivery in culture heritage sector is also needed. More specifically, this research aims at investigating how the Resource-Based Management Theory can affect the accountability effectiveness of the strategic planning within the Joined-up cultural heritage provision. In order to achieve this aim, a case study on an Italian Strategic City was carried out. The evidences demonstrate how the Resource-Based Management in joined-up cultural service strategic planning and delivery fosters accountability. The new conceptual model provided by this case study opens up new research streams on performance measurement and management aligned to the routes of accountability in the joined-up strategic planning and delivery. Considering the social-economic implications of a good management of cultural heritage, these investigations could contribute to improve the quality of life and the welfare of the society.

Key words: Joined-up government, resource-based management, Italian strategic city, cultural heritage, strategic planning, accountability.

INTRODUCTION

How to improve the quality of public services in terms of outcome is still been debated at international level (Lowe, 2013; Bryson et al., 2015). In response to that, an increasing concern on the management of public services from a single perspective (that of the local government) to a broader one (that of the stakeholder) has been spreading in the public sector research (Wiesel and Modell, 2014). The modernising government agenda

across the world sprung up the joining-up model of delivering public services (Osborne and Strokosch, 2013). This seems particularly suitable for providing "complementary" services, such as health care and social services (Hodges, 2012). The complexity associated with those public services emerges, also, in managing cultural heritage. This is a huge sector which encompasses tangible (museums, theatres, archives, architectural sites,

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etc.) and intangible (performing art, publishing industries, recording industries, copyrights, etc.) cultural assets (Scott, 2016). Majority of them are owned by public entities. Regardless of the ownership, cultural heritage is a “matter of public interest” because of its potential socio-economic impact on the society. According to Zan et al. (2007), cultural assets are “not subject to private law (which regulates social interaction), but to a specific public law (which governs public administration and its relationship with citizens)”. On this basis, the study focuses only on cultural heritage owned by local governments, which can choose to manage them in-house, in outsourcing or through a joined-up working.

It is generally recognised that pressure to do “more with less” has sprang up public sector reforms as well as the development of the Resource-Based Management in any public context (Arnaboldi et al., 2015; Cepiku et al., 2016). In order to face the austerity in creating public value, any municipality has to be able to manage a system of internal factors and external conditions affecting the efficiency and effectiveness of the public service provision. In this perspective, a fruitful approach comes from the Resource-Based Management.

Acknowledging the call for more investigations on strategic management in public sector (Knutsson et al., 2008), combined with the Joined-up Government framework (Hodge and Grave, 2018), this study aimed to develop knowledge in joined-up strategic planning with particular regard to the cultural service provision. In order to achieve this aim, an explanatory case study, within the Italian Network of Strategic Cities, was developed.

The expected results are consistent with the idea that strategic planning represents a good practice for improving the quality of cultural service, according to the Resource-Based Management Theory. Moreover, the joined-up approach of the strategic planning reinforces the need to apply accountability not only at the end of that process, when the results are already achieved, but also in the relating follow-up.

Theoretical framework

The Joined-up Government

Since the ‘80s’, public administration has been reformed at the international level, according to the New Public Management (NPM) paradigm. The need to improve the “value for money” in managing public services has encouraged forms of collaborating working among public, private and no-profit organizations (Ferlie et al., 2007). Hence, public management literature has given an increasing attention to the cross-sectorial collaboration matter and it has developed theories and empirical analysis (Bryson et al., 2015; Morris and Miller-Stevens, 2015). More specifically, the shift from the New Public Management to the New Public Governance has opened

new fields of study on the forms of collaboration in managing public services (Osborne, 2010). Even though recent studies have highlighted some difficulties in having a clear definition of ‘collaboration’ (Bryson et al., 2015; Morris and Miller-Stevens, 2015; Hodge and Grave, 2018), many collaborative practices have been encouraged under the “Joined-up Government” approach. This term, introduced by the UK Labour Government Modernisation Agenda (1997-2010), encompasses all that forms of collaboration (public-public partnership, co-working, joined-up-working, networking and co-production partnership) in which public organizations work with each others and with private or not-for-profit organizations (Hodges, 2012). The Joined-Up Government is based on an overview of the public actions, a global strategic approach and a coordination policy (Chow et al., 2007). In addition, there are several motivations to encourage the Joined-up Government approach such as that of Pollit (2003: p. 35):

“First, situations in which different policies undermine each other can be eliminated. Second, better use can be made of scarce resources. Third, synergies may be created through the bringing together of different key stakeholders in a particular policy field or network. Fourth, it becomes possible to offer citizens seamless rather than fragmented access to a set of related services”.

These motivations change the organizational and the inter-organizational culture and require a new accountability system. In Joined-Up Government, the latter is twofold: vertical accountability and horizontal accountability (Hodges, 2012). The latter is concern with the accountable relationships across the organizations or departments for the shared goals, outputs and outcomes. Vertical accountability, instead, refers to a hierarchical and formal approach of government, where bureaucrats are accountable to the higher levels for their outputs and politicians are accountable to the citizens for their goals, output and outcomes.

Considering the research challenges (Hodge and Grave, 2018), this study aims at understanding the routes of accountability adopted in practice for sustaining the joined-up government approach.

The Resource-Based Management for cultural heritage service provision

The joining-up provision of public service allows local government to develop a “participatory governance” based on a “joined-up” strategic planning. Therefore, the shift from the local government (municipality) perspective to a joined up government one (partnership) encourages the meta-planning which involves the development of a “collaborative” strategic planning (Bovaird, 2008). At the starting phase of the latter, there is the political openness to cooperate with other organisations (private or not-for-



Figure 1. The system of resource management factors.
Source: Knutsson et al. (2008: 300-301).

profit) for delivering services to the citizens. This managerial choice can be affected by a municipal "strategic" way of reasoning, which obviously must overcome the mere budget-based decision. In order to achieve the awareness of the advantages (such as efficiency, effectiveness and quality), which will come from the joined-up model of provisioning, a Resource-Based Management has to be developed. That theory, applied to the public context, identifies the "System of Resource Management Factors" (Knutsson et al., 2008). It includes internal factors, such as *Resources* ("The ability to work with goal implementation"), *Capabilities* ("What the municipality does") and *Goals* ("What the municipality wants to do"), and *external conditions* (local conditions and historical decisions). In details, resources refers to the organizational or human ones, addressed for goal implementation. They also encompass routines and organizational processes. Capabilities are linked to the ability of the municipality's resources to produce public services and processes. This internal factor, additionally, includes the capability to manage changes by making adaptation to the previous objectives and to the resources allocation. Goals are linked to the objectives of the municipality as a whole and to those ascribed to the municipality's departments. External conditions are connected to local factors such as the amount of municipality budget or the financial funds allocated, for "historical" decisions, to the municipality by the State or Regional budgeting (Figure 1).

According to the conceptual model aforementioned (Figure 1), the interplay of these factors (both internal and external) enables local government to choose the pattern of actions for handling its resource management. Hence, municipality should be more consciousness of the convenience to choose the joined-up working for delivering public service. From this reasoning, the need to share information among partners engaging in the joined up working comes up (Schau et al., 2009). The

objects of these information flows is indeed concern with both internal factors (resources, goals and competences within the partnership's borders) and external conditions (EU policy, national and regional legislations on public matter, the competitiveness of public services supplied in different public administration contexts, etc.).

As Weber and Khademian (2008: p. 343) reported: "the sending, receiving and integration of knowledge is fundamental to the effort to build capacity for performance and accountability". The process of integrating and sharing knowledge represents itself an exercise in accountability, whereas partners and other stakeholders-up and down the formal political authority structure, are constructively engaged in the service planning and management (Bovaird, 2007). Therefore, if the municipality engages other organizations in the decision making process, the latter have to act in all phases of the strategic planning process. Participation and engagement are crucial for building capacity in managing public service. Moreover, the stakeholder participation is based on the values of democratic governance such as trust, reciprocity and legitimacy (Talbot, 2008; Fung, 2015).

According to the theoretical framework aforementioned, the Italian cultural heritage service provision has been chosen as context of the study. This choice is mainly due to the fact that partnership among public, private and voluntary organisations has been encouraged by local governments for providing the so-called "complementary" services characterized by a hybridisation of expertise, such as health care, social services and cultural ones (Kurunmäki and Miller, 2006).

The capability of the local public museums, archives, libraries to face the challenge of the global crisis lies on the openness towards innovation, applied at the governance as well as the management levels. The shrinking public budget addressed to the cultural heritage has boosted this awareness among cultural organisations

(Zan et al., 2015). Networking as capability to interact with other organisations, operating in the same sector or in any other ones, represents itself an innovation (Evald et al, 2014). On this basis, the research questions to which this study attempts to answer are the followings:

1. If and how the Resource-Based Management fits in with the joined-up strategic planning on cultural heritage service provision;
2. If and how the vertical and horizontal accountability are fostered by Resource-Based Management in the joined-up government context.

METHODOLOGY

This study adopted a qualitative research method, based on the interpretative methodology (Mason, 2002). The case study was chosen in order to obtain an in-depth knowledge on the specific context investigated (Kalu and Bwalya, 2017). Indeed, that research method enables one to answer "if" and "how" questions (Yin, 2014), the same structure of those formulated for carrying out this case study.

In order to achieve the research aims, the latter was investigated by using a mixed information sources, in order to validate the findings from the documental analysis and the face to face interviews (Creswell, 2014).

Firstly, documental sources, like the Strategic Plan and the Dossier of the projects, available on transparency section of the Municipality web site, were gathered as data documenting the reality studied. These data are composed of texts which have been analysed as a complementary research to another one, the face to face interview. This research strategy is recommended, because the documents are originally constructed for a specific purpose, even though they should be applied as secondary sources for contextualizing the study. However, they cannot be used as a stand-alone method. The findings of the documental analysis should be validated by interview's statements (Flick, 2018).

At second stage of the research methodological process, face to face interviews were carried out by applying the problem centered approach. The latter represents a qualitative research method, which combines interview with a short questionnaire on the main issues of the topic under discussion (Witzel and Reiter, 2012). This structure was suitable for the case study, with regard to the research aims and the interviewers chosen. Indeed, the problem centered interview is aligned with the aim at enlarging the knowledge of the topic investigated, by engaging the key actors of the process (in this case study, the joined-up strategic planning for cultural service provision).

In addition, the short questionnaire was delivered before the interviews in order to acquire a more in-depth and reflective answers. The problem centered interviews carried out in the case study were guided by the following questions:

1. What were the main issues behind the joined-up strategic planning?
2. In the strategic planning of cultural heritage service provision, how were the capabilities acquired?
3. If and how did the stakeholder participation become engagement?
4. Which were the main strengths and weakness of the joined-up strategic planning?
5. Did accountability among the project partners occur (horizontal accountability)?
6. What about the accountability between the partnership and the citizens (vertical accountability)?

Although, this research method implies a bias (the focus on the interviewee's view of the issue around which the interview is centered), this study has attempted to overcome this limitation, through the triangulation of perspectives (the project leader and two joined-up partners of cultural heritage service provision).

Finally, the qualitative research design was based on an "explanatory case study", because it aims at explaining the reasons of a managerial accounting practice in a specific context (Ryan et al., 2002). According to this research method, if the theory is not able to provide a meaningful explanation of a practice, a new theoretical development is needed. On that basis, the case study contributes to producing a new conceptual model.

THE CASE STUDY

An overview

The joined-up strategic planning of the cultural heritage services provision in Pesaro, Capital City of the "Marche" Region in the Centre of Italy, was explored. The reason of this choice is the following highlighted.

Since 2001, Pesaro Municipality has promoted and participated in the Italian Network of Strategic Cities (Rete delle Città Strategiche - ReCS) to debate and share opinions and experiences on strategic planning features for local governments.

Hence, Pesaro Municipality has implemented a great participatory (stakeholder engagement) and integrated (intra and inter-organisational collaboration) approach to strategic planning. The joined-up government path was defined by Pesaro Municipality in its Strategic Plan as follows:

"Strategic planning is a process of voluntary cooperation between public and private organisations, undertaken in order to carry out a plan of actions in the medium-long term". In doing this, Pesaro Municipality was one of the first Italian cities (as Florence, Venice, Trento and Verona) in implementing a joined-up strategic planning. This also has been considered an Italian best practice for strategic management approach and for its transparency (Mazzara, 2009).

In addition, among the Italian Strategic Cities, Pesaro has coordinated its strategic planning by creating an internal coordination unit, named Urban Center. The Pesaro Municipality has adopted a co-operating method through a preliminary Memorandum of Understanding between Urban Center and 26 organisations (public, private and not-for-profit). According to that agreement, six Committees has been created in order to discuss strategies on the following themes: Entrepreneurship Attraction, Internationalization and Promotion, ICT, Local Welfare, Territory and Cultural Heritage. Among them, this study focuses on the cultural strategy. The case study was carried out through the analysis of the documental sources (such as the Strategic Plan and the Dossier of Projects - <http://www.pianostrategico.comune.pesaro.pu.it>). In addition, local politician (the Municipal Vice-Mayor, who also is the municipal executive of Pesaro Cultural

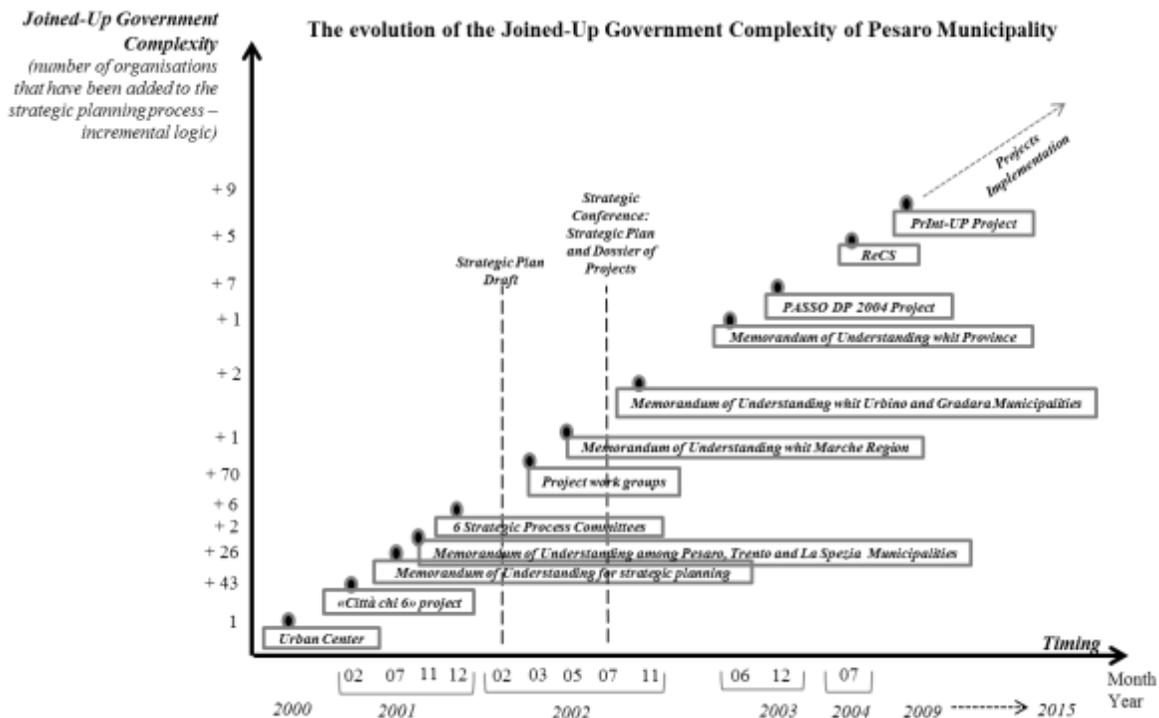


Figure 2. The evolution of the Joined-Up Government Complexity.

Source: Elaboration from <http://www.pianostrategico.comune.pesaro.pu.it>.

Heritage Department) and other local stakeholders (the Urban Cultural Expert and the “Bobbato Library” Association’s Member) involved in cultural heritage projects have been interviewed.

Results from the documental analysis

Over the last decade, Pesaro Municipality has raised the need to cooperate with other organisations (public, private or not-for-profit) for delivering complementary services based on public goods. This approach has arisen from the difficulties in managing in-house in increasing complexity of the economic and social context. Pesaro municipality turned from a bureaucratic approach to a joined-up one, that involves skills, know-how and resources outside its boundaries. That approach has been implemented in the whole strategic planning (in the cultural heritage sector). Indeed, from the beginning of the strategic planning, the dynamic relationships among partners have been characterized through meeting, seminars, conferences and committees. These actions, coordinated by the Urban Center, were planned for jointly defining the strategic goals, which are parts of the System of Resource Management Factors (“What the municipality and the joined-up partners want to do in delivering complementary public services”).

The engagement of other organisations has been increased during the process (Figure 2). In the first stage of the strategic planning, the joined-up process engaged more than 130 people from 43 different organisations. Moreover, 6 strategic committees, one for each strategic theme, were set-up (the Culture Committee was made up of 23 public entities, private and not-for-profit organisations). The first Memorandum of Understanding was agreed upon by 26 partners in 2001. Afterwards the Strategic Plan and the Dossier of Projects were presented to the local community at the “Strategic Conference” arranged by the partnership in July 2002. Then, in 2004, Pesaro Municipality promoted the institution of the Italian Network of Strategic Cities through the inter-institutional agreement with Turin, Florence, Venice, Trento and Verona municipalities. Besides two other agreements with Marche Region were set-up for financing strategic projects relating to the sustainable development and the innovation technologies.

Pesaro, in partnership with other Italian Municipalities, Universities, Associations and Research Centres, has fostered the stakeholder engagement and the accountability through an e-government initiative: “E-DEMocracy/Piano Strategico (e-demps)” project. The output of that project was the strategic plan website, which has been designed and implemented in order to increase the stakeholder participation and the interactive

“dialogue” with citizens.

On this basis, the joined-up working has implied a "sharing of information" among all relevant stakeholders: public, private, not-for-profit organisations and citizens. The e-demps project allowed Pesaro Municipality to fill the gap in resources, expertise and capabilities and to make its strategic process more accountable.

The Pesaro Strategic Plan is structured as an Action Plan, considering that each strategic theme (named "Area") is made up of various "Actions" and "Projects". The development of these Actions and Projects has ensured both the ability to work goals implementation and the municipality capabilities. All strategic projects include about 70 organisations and 250 people.

Also, in this case, the internal factors (resources, goals and competencies) and the external conditions (EU policy, national and regional legislations, etc.) were considered in a joined-up perspective. Each project joins human resources and competencies, adds new technical expertise, raises more funds, and integrates different policies (at local, regional, national and European level). Focusing on the "Area 2: Cultural Heritage" the Strategic Plan includes four Actions, each one articulated in different Projects (Table 1). Each project has been planned by developing a strategic approach, which includes the following items:

1. The project objective (public value to create)
2. The analysis of the "state of art" (or in other words, the analysis of the municipality resources)
3. The vision of the project (the strategy formulation for this approach)
4. The outcome of the project
5. The feasibility (based on SWOT analysis)
6. The joined-up partnership
7. Benchmarking
8. Synergies (with other projects including in the Pesaro Strategic Plan)
9. Financial resources (Local or EU Funds)
10. Timing and scheduling
11. Expertise for the strategy's implementation

Any single item of the strategic approach aforementioned has been reported in a specific paragraph of the Pesaro Strategic Plan. This is accessible on the Pesaro Municipality web-site (<http://www.pianostrategico.comune.pesaro.pu.it/index.php?id=2135>).

Focusing on the Project 18 "Integrated Cultural Heritage System", the double perspective of the single Municipality and of the joined-up partnership springs up across the 11 items of the strategic approach aforementioned. From the analysis of that project, the Resource-Based Management approach on the joined-up cultural heritage provision emerged. The System of the Resource Management Factors includes as internal factors, the following:

1. The Joined-Up Goal (1 - The project objective), that concerns the creation of an innovative and integrated network of cultural organisations in order to preserve and enhance tangible and intangible cultural values, through a bottom-up strategic planning;
2. The Joined-Up Resources, identified at Municipality (2- The analysis of the "state of art") and joined-up partnership levels (6- The joined-up partnership), on the basis of the SWOT analysis (5- The feasibility) and in relation to the goals and the vision of the project;
3. The Joined-Up Capabilities, which come out from the discussion on the joined-up partnership composition (6- The joined-up partnership), on the gap in the expertise required by the project (11- Expertise for the strategy's implementation) and on the inter-relationships with other projects included in the Strategic Plan (8- Synergies).

The External Conditions, included in the System of the Resource Management Factors, refer to the fund-raising (9- financial resources) as well as to the social and economic impact of the project (4- The outcome of the project).

From the "Dossier of Projects" the joined-up working modes are clearly disclosed. The formulation and the implementation of the cultural heritage strategies are both discussed at the Working Participants Table, coordinated by a Project Leader. The latter is always coincided neither with the Manager of the Pesaro Cultural Heritage Department nor with other public organisations (Table 1).

Moreover, the hybridizing competences, required by the strategy planning within the cultural heritage sector, emerge from the joined-up partnership composition. The number of the partners and their competences change in relation to the complexity of the cultural heritage project. Another important aspect is the "sharing" knowledge among partners. The Dossier stresses the pivotal role of the information sharing for enabling the integrated Cultural Heritage System. The engagement mechanism suggested by the "sharing" knowledge is represented by the e-government, which also has been adopting for making Pesaro Municipality accountable towards the citizens.

Results from the face to face interviews

The consistency of the Pesaro strategic planning approach with the Resource-Based Management framework has been validated by the face to face interviews to Municipal Vice-Mayor and to the Urban Cultural Expert and the "Bobbato" Library Association's Member. They are guided by the five questions previously mentioned in the methodology section of this study.

The first question asked sought to find out the reasons underpinned by the joined-up strategic planning. The need to fill the gap in resources and competencies within

Table 1. The Pesaro Cultural Heritage Joined-Up partnership.

	Project leader	Joined-Up Partners
Action 6: To Enhance cultural heritage		
Project 18-Integrated Cultural Heritage System	Public manager of Pesaro Cultural Heritage	Coop, Bank Foundation, Rossini Opera Festival, Urban Center of Pesaro, Pesaro Municipality, "Marche" Region
Project 19- Urban Museums Network	Bank Foundation and Pesaro Municipality	Bank Foundation and Pesaro Municipality
Project 20-Urban Libraries Network	Pesaro Municipality	"Oliveriana" Library, Pesaro Studies, "Bobbato" Library, "Guidi" Museum Library and Sea Museum, "Women" Library, Civic Museums Library, Museum Academy Library
Project 21- Pesaro: City of Studies	Not developed yet	
Project 22- Urban and Cultural Timing	Pesaro Municipality	Confederation of the workers from Commerce and Tourism Sector, Trade Unions, Coop, Rossini Opera Festival
Project 23- Pesaro: Accessible Town	This project is encompassed in Area "Local Welfare"	
Action 7: To develop the architectural cultural heritage		
Project 24- To Re-vitalize the Architectural Cultural Heritage	This project is encompassed in Project 25	
Project 25- The quality of the Architectural Cultural Heritage: The Urban Paths	Architect (registered in the Architects List) and urban cultural expert	Professionals of the matter
Action 8: To create a network of cultural cities		
Project 26- "Marche", Region of the plural cultures	"Marche" Region - Cultural Heritage Department	Bank Foundation, Pesaro Municipality, Manager of the Ecclesiastic Cultural Heritage, Province of Pesaro and Urbino,
Project 27- Memorandum of Understandings for enhancing "Marche" Cultural Heritage	"Marche" Region - Cultural Heritage Department	Pesaro Municipality, "Marche" Region, Urban Centre of Pesaro
Project 28- Art Laboratory	High School of Art Industries (Urbino)	Art Academy of Urbino, Urbino High Schools, Urbino Municipality
Action 9: To develop the urban cultural environment		
Project 29- School, Enterprise and Entrepreneurial Culture	Industrial Association	Coop, Science High School, Technical High School, Trade Union, Province of Pesaro and Urbino, Hotel High School
Project 30- City Communication	Communication Professionals	Communication Agency, Project Consulting, Pesaro Municipality, Trade Union

Source: Elaboration from "2015 Projects Dossier", pp. 60-90.

the local government represents the main motivation that led Pesaro Municipality to implement a joined-up working in delivering public service. In fact, the interviewee provided the following remarks:

"Since '90s', Pesaro Municipality had felt the need to adopt new policies and managerial tools to support an «active participation» of the local government in the territorial and economic changing processes; in order to meet that need, the participation of different stakeholders in the political choices of the city was promoted. Briefly, a «knowledge mobilisation» was fostered" (Municipal Vice-Mayor).

The search for new capabilities was driven by the

recognition of the territorial stakeholders to be engaged in the "Projects" of the Pesaro Strategic Plan. It comes from the answers to the second question:

"The strategic planning process has identified the territorial stakeholders which are able to play a responsible role as leaders in the Actions of the Strategic Plan" (Municipal Vice-Mayor).

"Because of my expertise on urban planning applied to cultural heritage, I was involved in numerous team projects as joined-up partner of Pesaro Strategic Plan" (Urban Cultural Expert).

"The Bobbato library has been spreading out knowledge about the urban and social development of the city in the Twenty Century by collecting historical sources (as pictures, video ect.) and through scientific researches and publications" ("Bobbato" Library Association's Member).

The participation of the territorial stakeholders in the Strategic Planning process shifted into an effective stakeholder engagement in the formulation of the Strategic Plan. It has been highlighted by the interviewees in answering the third question:

"The strategic planning process has been carried out by separating the moment of the broaden participation of the territorial stakeholders from the moment of the stakeholder engagement in joining-up strategic plan implementation" (Municipal Vice-Mayor).

"The participation was very active, fruitful and concrete. The joined-up working was articulated in small group (8-9 people) where the debate was developed by sharing different opinion and competencies" (Urban Cultural Expert).

Nonetheless some projects, included in the Strategic Plan ("Project 21" in Table 1) have not developed yet. It represents a critical issue stressed by the answers to the fourth question:

"The lack of territorial stakeholders being in charge of a specific Action of the Strategic Plan has caused a general misunderstanding of the clear function of that Action within the Plan" (Municipal Vice-Mayor).

"The main issues about the Pesaro strategic planning were not in the process itself, that was participated and effective, but in its implementation. Indeed, even though all the projects were joined by the partners, some of them were not carried out because of the heavy and long economic crisis" ("Bobbato" Library Association's member).

The joined-up working strengths are referred to as the capacity building. In fact, even though the political and governance systems of that local government changed, the joined-up model of governing and managing public goods is still been applied. This evidence has been found in the governance of the cultural heritage sector, where the coordinating role of the Urban Center will be replaced by a not-for-profit organisation, named "Fondazione Unica Pesaro Cultura" ("Pesaro Cultural Heritage Unique Foundation"). These observations are confirmed by the following quotation:

"In the previous months, we were working to unify in a single organisation all institutions and cultural

foundations located in the city, such as theatres, libraries and museums/exhibition centres, supported or participated by the local government.

This unique foundation will be chaired by the mayor or his delegate and governed by the board of directors. These will be elected by the municipality and by the private shareholders. This unique organisation represents a real managerial tool able to merge all the resources provided for delivering cultural services. Hence, a significant «critical mass» versus the fragmentation of the past" (Municipal Vice-Mayor).

Moreover, the joined-up cultural service provision has boosted the Pesaro Municipality networking capability as a further member of the Icon Cities Network.

"Over the years, the joined-up cultural heritage service provision has been transformed into «creative network»; Pesaro is joining-up with the other cities that are already partners of the music network. Next June, Pesaro is going to join the Icon Cities Network" (Municipal Vice-Mayor).

Summarizing, Pesaro Vice-Mayor argued that Joined-up Government shifts from "the *cure* of culture heritage" to "the *care* of culture heritage". This way of thinking is able to grow and develop innovation in managing cultural heritage.

Relating to the fifth question referring to the routes of accountability of joined-up cultural heritage service provision, the interview with the "Bobbato" Library Association's member pointed out:

"The municipality has developed the social reporting alongside the strategic planning process. The social report has been adopted as a communication tool about the activity carried out by the municipality to meet the public needs" ("Bobbato" Library Association's Member).

Moreover, the Pesaro strategic planning process encompassed a horizontal accountability as emerged from the "Print-up Project". In relation to the latter, Pesaro Vice-Mayor and the Urban Cultural expert respectively stressed that:

"In order to stimulate and promote the joined-up strategic planning, working tables have been arranged at the provincial level" (Municipal Vice-Mayor).

"The final findings of the working tables were presented and discussed in the first forum of the strategic process at the attendance of all joined-up partners" (Urban Cultural Expert).

DISCUSSION

How the Resource-Based Management explains the

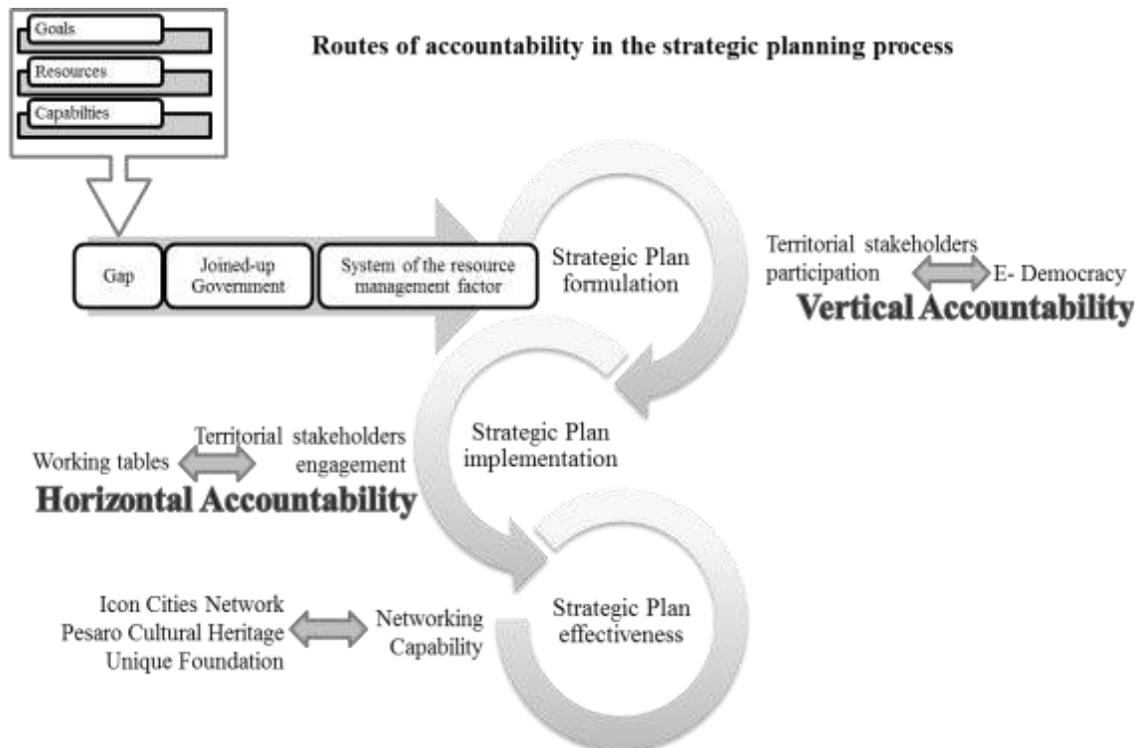


Figure 3. A “new” conceptual model.
Source: Elaboration from Hodge and Grave (2018).

routes of accountability in the strategic planning within the joined-up cultural heritage provision not dismissed by the evidences presented in the case study. From the documental analysis and the face to face interviews, the main motivations for choosing the joining-up provision for cultural heritage service clearly emerged. According to the Resource-Based Management Theory (Durand et al., 2017), the effectiveness of the strategic planning depends on the level of knowledge of the relationships between internal factors and the external conditions. Indeed, the Pesaro Strategic Plan is the output of resources (financial, human resources and cultural ones) sharing process, combined with the competences hybridization and the joined definition of goals.

The joined-up strategic planning implies a tied relationship with the external context, which the territorial stakeholders are part of. Therefore, this relationship is twofold: the broaden participation of territorial stakeholders in the strategy formulation and the engagement of who has been able to be in charge of a specific project in the strategy implementation. According to public management literature, participation and engagement build capacity for accountability, since the sharing knowledge is implied in both these practices (Zhang and Feeney, 2017). The Pesaro case study has demonstrated that E-democracy is a relevant practice for transferring information and, in meanwhile, to be accountable towards territorial stakeholders (Benoit and

Kudo, 2016). Furthermore, stakeholder engagement increases their responsibility in the strategy implementation and meanwhile, fosters accountability, trust and legitimacy (Nalbandian et al., 2013). Evidences stress this point by underlying how the territorial stakeholder engagement in the working tables represents an accountability practice, based on sharing knowledge (Herremans et al., 2016).

Accountability that fosters strategic planning process is a common standpoint. Nevertheless, how it occurs is a matter to be still uncovered. The interviewees pointed out that the territorial stakeholder engagement, as an accountability practice, enforces a shared responsibility in achieving strategic goals. In addition, the sharing knowledge, as an accountability tool, builds networking capability. It is also confirmed by the evidences relating to the further developments of Pesaro joined-up cultural heritage service provision. They refer to the further establishment of the "Pesaro Cultural Heritage Unique Foundation" and to the further membership in the "Icon Cities Network".

Regarding the research challenges on the routes of accountability which can be adopted in practice to support collaborative working, the contribution of the case study is summarised in Figure 3.

In order to avoid the mistake to make broad and normative statement of the solutions about accountability routes in Joined-up Government (Hodge and Grave,

2018), the results of this research was interpreted within the borders of the case study. However, accountability follows two routes in the strategic planning process: vertical at the strategy formulation phase and horizontal at the strategy implementation one. With regard to the vertical accountability, the E-democracy practice fosters the territorial stakeholder participation in the Joined-up Government. However, the case study does not emphasize the joined-up partners of the strategic planning process capability to be accountable towards the territorial stakeholder relating to all project objectives achievement. Indeed, Pesaro municipality was addressed to the social reporting alongside the strategic planning process. However, the social report has been adopted by that municipality for being accountable on its own services delivery towards local community. Hence, the social report function is not totally consistent with the vertical route of accountability of the strategic planning process. The horizontal accountability comes out in the relationships across the territorial stakeholders engaged for the joined cultural heritage provision (Figure 3).

Moreover, evidences highlight how the Resource-Based Management fosters accountability in the horizontal route. Therefore, the working tables, as accountability practice, boosted the fruitful and concrete participation by sharing competencies. In addition, all joined-up partners shared the final findings of the working tables in the "Strategic Conference". The goals, resources and sharing capabilities induces information exchange, and, in the meanwhile, co-responsibility, trust and legitimacy (Fung, 2015). Thus, horizontal accountability is fostered by the Resource-Based Management.

Conclusion

This research has pointed out the effectiveness of the Resource-Based Management in fostering the accountability structure and mechanism within the Joined-up Government.

Furthermore, even though the joining-up model is adopted for providing complementary services, such as cultural heritage types, the findings of the case study are not influenced by the specific context chosen. Hence, the robustness of the "new" conceptual model ("routes of accountability in the strategic planning process") provided by the research, needs to be grounded by multiple-case studies investigations. Particularly, as limitation of this study, the vertical accountability, up and down the legal structure of the joined-up partners, should be explored.

Moreover, new research paths on the performance measurement system and the outcome evaluation of the joined-up public service provision are needed. Which performance measurement system could be designed and implemented for supporting both vertical and horizontal accountability in the Joined-up Government?

How do the territorial stakeholder participation and engagement affect the performance measurement system aligned to the strategic planning? How could the territorial stakeholder perception change the outcome evaluation of the joined-up public service provision?

Finally, the debate based on the aforementioned research streams within the cultural heritage context should be encouraged to boost the socio-economic implications of a good cultural service provision, in terms of quality of life and community welfare.

CONFLICT OF INTERESTS

The author has not declared any conflict of interests.

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Full Length Research Paper

Financing challenges of smallholder farmers: A study on members of agricultural cooperatives in Southwest Oromia Region, Ethiopia

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Smallholder agriculture plays a great role in food self-sufficiency, employment creation and economic growth. However, studies conducted in Ethiopia indicated that access to finance and input/output marketing are two of the critical problems affecting the productivity of smallholder agriculture in the country in general and in Oromia regional state in particular. The main objective of this study is to investigate how smallholder farmers in southwest Oromia zones finance their farming activities and examine problems associated to access to finance. To achieve this objective, 400 sample smallholder farmers who are members of agricultural cooperatives were selected from three zones (Jimma, Buno Bedele and Illu Aba Bora) and survey were conducted. Both structured and unstructured interview were made with farmers and officials of selected primary cooperatives operating in the three zones to scrutinize the issue in depth. The data collected were analyzed using descriptive statistical tools to come up with appropriate conclusions. The finding of the study showed that despite the expansion of cooperatives and MFIs to rural area, there is still a challenge to get credit from these formal financial sources. Some of the problems include: absence of interest free loan for Muslims, long lending procedures, problems related to repayment period. As a result of these, smallholder farmers tend to prefer informal sources such as credit from traders, family members, friends, and Iqube.

Key words: Access to finance, cooperatives, smallholder farmers, Southwest Oromia.

INTRODUCTION

Agriculture is still the major economic activity which creates job for most citizens in many African countries. Researchers estimate that agricultural productivity in Africa must increase by 50% to feed the 1.3 billion estimated populations by 2030. Currently, studies show

that more than 25% Africans are undernourished out of which smallholder farmers comprise half of these people living in absolute poverty. The main reasons why Africa cannot feed itself though the majority of its population are engaged in farming is because farmers lack access to

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agricultural inputs and other agricultural technologies largely, because of lack of finance (Opportunity International, 2012).

Ethiopia has a land area of 1.1 million km² and population of more than 100 million which makes the country one of the largest in Africa. Its economy is largely based on agriculture that creates employment for 85% of the population, accounts for 37% of the GDP and brings about 90% of the export earnings (Central Statistical Authority (CSA), 2016). However, Ethiopian agricultural sector is also facing the same problems similar to its African brothers and sisters which forced the current government to make economic reforms. In 1992, the current government of Ethiopia has introduced a variety of economic policy changes aimed at enhancing macroeconomic stability, speedup economic growth, and reducing poverty (Tafesse and Ferede, 2004).

Central to all of the economic reforms of the country was Agricultural Development Led Industrialization policy (ADLI), enacted in the belief that agricultural sector can serve as the driving force for the rest of the economy. In ADLI, it is hoped that growth in agricultural sector ultimately leads to growth in the country cognizant of the fact that majority of the people resides in rural areas where agriculture is the main means of life. The policy aimed at exploiting the country's labour force and land with modernization of the agriculture sector thereby increasing agricultural productivity. It was believed that the surplus agricultural product would provide the industry a cheap source of raw material, while the demand for industrial goods would increase for agricultural inputs and consumption (Obo, 2009).

Most of the agricultural activities in Ethiopia are undertaken by smallholder farmers. Studies have shown that 94% of the food crops and 98% of the coffee are produced by smallholder farmers. Large private and state agricultural activities produce only 6% of food crops and 2% of the coffee grown (Gebre-Selassie and Bekele, 2013). From this, one can conclude to what extent smallholder farmers are the strategic candidates in enhancing the effort towards overall economic growth in Ethiopia. These days, smallholder farmers are recognized as key contributors to increasing the world food security. However, smallholder production in developing countries is fraught with a multitude of challenges, including low yields, low quality of crops, and lack of access to markets including credit markets. Access to finance is the most critical factor for the use of improved agricultural inputs and technologies. It provides funds for agricultural investments, enhances post-harvest practices, smooth household cash requirement and promotes better management of risks contributing to long term food security. But securing capital to purchase agricultural inputs, investing in farming machineries, and paying for transport to sell agricultural outputs is a challenge that smallholder farmers face in every harvest season. The authors have undertaken a survey on the

topic "Financial and Marketing Challenges of Smallholder Farmers: A Study on Members of Agricultural Cooperatives in Southwest Oromia" in the academic year 2016/2017 under the sponsorship of Jimma University. The objective is to identify the bottle necks surrounding smallholder farmers in the region and provide appropriate suggestions. This article is part of the aforementioned study specifically aimed to identify challenges surrounding access to finance of smallholder farmers taking evidence from least developing country Ethiopia. Specifically, the evidence for the study is taken from small holder farmers in three zones in Southwest Oromia sub-region.

Research problem

In many rural regions of developing countries, large percentage of the population lives below poverty level. Hence, effort to improve their living standard highly depends on possibilities of enhancing agricultural productivity. However, smallholder agriculture is burdened with a multitude of challenges including lack of access to finance and markets. Securing capital to purchase agricultural inputs, invest in agricultural machineries, and pay for transport to sell agricultural outputs is a challenge that smallholder farmers encounter every harvest season. This issue has especial relevance to Ethiopia, where agriculture accounts for above 37% of the country's GDP and 85% of total employment (CSA, 2016). Majority of smallholder farmers in the country cannot use improved agricultural technologies out of their own funds. They need to get credit to finance agricultural input and use new farming technologies.

Access to agricultural credit makes conventional agriculture more productive through the purchase of modern agricultural machineries and other agricultural inputs. Credit can also be used as a mechanism for market stability in the economy. Smallholder farmers can enhance their bargaining power by having storage facilities for agricultural output and access to transport through credit. Credit plays a significant role in covering farm household consumption deficits. This would in turn help the smallholder farming family to work efficiently and effectively in its agriculture. Credit can further help as an income transfer means to remove the inequalities in income distribution among citizens. Access to various types of financial services is a significant challenge for smallholders, who constitute the vast majority of farmers in Ethiopia. Without access to finance and sufficient yearly earnings, many smallholder farmers give-up the majorities of their annual income in order to get quick access to cash to afford household expenses throughout the year. Before harvest season comes, smallholder farmers often face a challenge to pay for family necessities. Until their crops are ready to be sold, many farmers are forced to get credit from illegal moneylenders

at high interest rates or sell their future harvest early at a reduced price to receive the cash they need to cover their expenditure for survival (Opportunity International, 2012). After harvesting crops during winter season, most smallholder farmers are busy selling their agricultural output in order to settle their earlier bills.

Since the majority of the farmers are bringing their output to local market at the same time, the price of crops goes down and they are unable to earn appropriate price for their harvest. This situation indicates to what extent smallholder farmers are exploited because of lack of awareness and absence of access to formal credit and proper marketing channel. Cooperatives in general and that of the agricultural cooperatives in particular are established to play significant role in improving access to credit, provide agricultural inputs and create market linkage of smallholder farmers.

Although, cooperatives are given such a central role in the country's rural development strategy, to our knowledge, there are limited studies on financing challenges of smallholder farmers especially in Southwest Oromia, Ethiopia. Hence, the focus of this study is to examine the financing practice of smallholder farmers and study the role of agricultural cooperatives in facilitating access to finance in South-Western Oromia sub-region.

Objectives of the study

The main objective of the study is to examine sources of finance for small holder farmers and identify the associated problems. Specifically, the study was carried out:

- (1) To examine the extent of use of the different sources of finance by smallholder farmers in Southwest Oromia,
- (2) To investigate the challenges for use of formal sources of finance by smallholder farmers,
- (3) To evaluate the role of agricultural cooperatives in solving financing problems of smallholder farmers.

LITERATURE REVIEW

Finance is a broad concept that deals with the supply of fund to meet operating and investment expenditures of an economic activity. Rural finance is subdivisions of finance which comprises agricultural and non-agricultural finance. Rural credit specializes in the provision of credit for rural households. Agricultural credit is the most specialized division of rural credit, which provides credit service only to smallholder farmers (Komicha, 2007).

Rural credit institutions can be broadly classified into formal and informal institutions. Formal institutions are licensed and regulated by central bank or any relevant government agency. These institutions comprise of

commercial banks, microfinance institutions, cooperatives, development banks, capital lease companies and insurance companies. Informal credit markets refer to those markets which are not licensed and regulated by government authority which include moneylenders, landlords, traders, friends, and relatives. The informal sector is not regulated by any formal institution and the lending conditions are often flexible. In the formal credit markets, institutions provide intermediation between depositors and lenders charge relatively low rates of interest that usually are government subsidized whereas in informal credit markets money is lent by private individuals. The formal sector depends on deposits while the informal sector relies more on its own funds. In between these two ends of the range are semi-formal financial nongovernment organizations including, Iqqub, Idhir, Mahiber, other self-help groups, nongovernmental and international organizations (Zewdie, 2015). Formal and informal credits are imperfect substitutes. In particular, formal credit helps to reduce informal borrowing, but does not completely eliminate it. Informal credit is used for consumption-smoothing purposes, while formal credit is used mostly for improving agricultural production. The informal financial sector in Ethiopia, as indicated earlier is neither regulated nor counted for in the country's financial intermediation process.

The sector, however, provides by far the greatest financial services to the bulk of the population on flexible terms. Though, the informal financial sector is important to most informal sector operators and the farming population, government support to the sector has been until recently very little. The establishment of formal credit financial institutions in developing countries some years ago was, among other reasons connected to the belief that local informal lenders such as merchants, landlords and shop owners exploit smallholder farmers by charging them very high interest rates (Manig, 1996). The banking sector in Ethiopia consists of one state-owned development bank (Development Bank of Ethiopia (DBE)), one state-owned commercial banks (Commercial Bank of Ethiopia (CBE), and 16 private commercial banks (NBE, 2017).

Despite the continuous increase in the capital base, the banking industry in Ethiopia is still very small compared to some big banks in Africa. Unlike its East African neighbours and other developing countries, Ethiopia is yet to open its banking sector to foreign investors, though it liberalized the sector for domestic participation in 1992. Further, the banking sector in Ethiopia emphasizes on relatively well to do businesses engaged in urban centers and mechanized agricultures to some extent and have totally ignored smallholder farmers (Zewdie, 2015). In response to the limited accessibility of the commercial banking system and the growing doubt about the effectiveness of NGO subsidized input supply loan programs, Ethiopian government introduced microfinance

institutions in 1996 after formulating the required legal procedures. Growth in outreach and sustainability of microfinance institutions that reach a large number of rural and urban poor has been a prime objective of the new development strategy of the Ethiopian government (Zewdie, 2015). In Ethiopia, there are 35 microfinance institutions legally recognized by the National Bank of Ethiopia till 2017. These institutions deal directly with micro and small enterprises operators and individual farmers who fulfil the loan provision criteria set by their management. Though an absolute figure is not available, it has been believed that these microfinance institutions play an important role in narrowing the gap between the demand and supply of credit in rural areas. The advantage of these microfinance institutions is that farmers can get loan in cash and use it to purchase agricultural inputs (Zewdie, 2015).

Other sources of rural finance are the different types of cooperatives that are established in rural area. In Ethiopia, cooperatives are playing a crucial role in the country's past and current development strategy. As of 2015, there were 56,044 primary cooperatives, both agricultural and non-agricultural having nine million members throughout the country. Of these, 8,435 primary cooperatives are organized in 309 unions. Agricultural cooperatives, however, only account for about one-fourth of cooperatives in the country. In Oromia region alone there are above 15,492 primary cooperatives, more than 124 cooperative unions and two cooperative federations. One of the objectives of cooperatives specifically agricultural cooperatives is providing or facilitating credit service to their members. Instead of borrowing money and purchase farm equipment, such as tractor and combiner or even complete farm and harvesting equipment; it is sometimes possible to acquire them through lease agreement. Lease is an agreement of giving to another party the right to use an asset for a specified period, in exchange for a periodic lease payment. In other words, just like liquid money, productive assets can be borrowed through leasing. These assets are however contained in the balance sheet of the lessor and not in the balance sheet of the borrowing firm, the lessee. Therefore, leasing essentially represents a form of off-balance sheet financing. This aspect may be important in situations in which a farmer prefers to maintain a certain debt-equity ratio or is not in a position to further increase its debts (Peterson and Fabozzi, 2003).

The basic challenges in providing credit to poor people, as formal financial institutions tend to see it is the high risks and the high transaction costs involved. In Ethiopia, where the majority of the rural population live in very poor conditions, people have to find a way of survival. Hence, semi-formal financial institutions have become a high priority especially among the poorest segments of the rural population. Such traditions have existed for a long years, and continue to the present day, mainly because

they have been successful in achieving their objectives. There are a number of community based indigenous savings and credit groups. One of the traditional community based institutions is known as Iqqub. It is an informal type of cooperative society established by members for the purpose of bringing their savings in accordance with rules established by the members. Group members agree to deposit monthly or weekly contributions of a fixed sum with an elected treasurer among themselves. Lottery is drawn weekly or monthly by turns and any member can get the fund by chance (Aredo, 1993).

With respect to formal financial institutions, it is only 1% of rural households that have their own bank accounts. Thus the traditional informal financial institutions are the most important sources of rural finance and accounts for about 78% of total agricultural credit. The major sources of finance according to Aredo (1993), are relatives and friends (66%), and moneylenders (15%). Informal moneylenders are preferred by the majority of the smallholder farmers because they are quick, simple, convenient and flexible albeit charging at an annual rate of interest as high as 245% (Aredo, 1993).

Generally, the formal financial sector is challenged to deliver efficient and effective financial services in rural areas where a huge demand supply gap exists. The reasons include: high transaction costs due to small loan size, lumpy cash flows, and high covariant risks across borrowers and clients live dispersed and suffer from a lack of adequate infrastructure, skill gap in the banking sector; especially lack of knowledge of the agribusiness sector and poor risk management skills, low product quality in savings, loans, insurance and payment services. This covers limited credit for input financing, for inventory and export financing, for long term loans, for cash flow based lending and deposit products, high collateral requirements and the inability to use land as collateral lead to the use of illiquid and perishable collateral, lack of a dedicated regulatory framework for cooperatives (Zewdie, 2015).

Developing the agricultural sector is critical to achieve the Millennium Development Goal of reducing poverty and hunger in the world. With a rising world population, it is expected that the demand for food will continue to increase. At the same time, the food price rise in recent years has increased global concerns about current levels of agricultural production. These requires giving due attention to financial institutions in increasing agricultural producers' access to finance (International Financial Corporation (IFC), 2014).

According to IFC (2014), of the 75% of the world's poor that lives in rural areas, 80% depend on farming as their main source of livelihood. Thus, smallholder farmers play a key role in increasing food supply in poor countries. Despite their socioeconomic importance, smallholders have no access to formal credit, which limits their

capacity to invest in modern technologies and use of agricultural inputs that increase their yields and incomes and reduce hunger and poverty (International Financial Corporation (IFC), 2014).

Many factors that emanate both from the demand and supply side make rural households not to access financial services. The first is the high transaction costs due to inadequate communication and information technology and the remoteness of the local areas.

The second is credit risks which are higher in rural area since the incomes of the rural households are highly exposed to natural disasters including: flood, drought, plant diseases, and fluctuating weather. Further, rural households mostly depend on few sources of income and thereby increasing the risks of financial intermediation. Loans can be secured with fixed assets backed by a clear legal ownership. Credit institutions often require land or other fixed assets as collateral for agricultural loans, thus excluding a large percentage of agricultural producers from access to finance. This is because many households either entirely lack collateral or do not have the legal title to land which negatively affect access to finance. The last reason in most developing countries is high illiteracy rate in rural areas which has multifaceted effect. Poorly educated households find it increasingly difficult to assess the financial service (International Financial Corporation (IFC), 2014).

RESEARCH METHODOLOGY

This study is designed to describe the financing challenges of smallholder farmers and the role of agricultural cooperatives in alleviating these challenges. Thus, a descriptive method is viewed as an appropriate research design for the study. The researchers used both quantitative and qualitative approaches to collect and analyze data. This study is based on a sample of smallholder farmers who are members of cooperatives selected from the three zones in south western Oromia regional states.

According to the information from Jimma, Illu Ababa Bora and Buno Bedele zones cooperative agencies, there are above 1,000 primary cooperatives in the three zones. A multi stages quota sampling procedure was adopted to select 400 sample respondents for the study. First, eight administrative districts which have sufficient number of cooperatives were purposely selected. The districts selected include four from Jimma zone, two from Buno Bedele Zone and two from Illu Aba Bora zone. Second, two primary agricultural cooperatives from each districts were randomly selected and finally 25 smallholder farmers were randomly taken from each agricultural cooperatives for structured interview. Both primary and secondary data were collected and used in the study. Survey instrument was designed and used considering the limited level of education of the respondents. The interview questionnaire includes information on access to finance and household and farm characteristics such as age, gender, education, family composition and farm size, agricultural yields, household income, loans and credit provisions. The questionnaire was prepared considering all the variables to be analyzed and using questionnaires of similar researches conducted in other parts of the country.

Additional primary data were collected using semi structured interview with leaders of the selected primary cooperatives (16 interviewees) and government officials in cooperative promotion agencies of the selected zones and districts (8+3 = 11

interviewees). A total of 27 officials were contacted for semi structured interview. The main objectives of conducting the interview is to support the data collected with interview questionnaire from smallholder farmers. The results of the interview were therefore incorporated in the discussion part whenever it is appropriate. In addition to primary data, secondary data pertaining to the study were collected from CSA, regional, zonal and district cooperatives promotion agencies. These include population statistics, list of members of the selected primary cooperative agencies, rules, regulations and working procedures related to cooperatives in the region. After collecting primary and secondary data, descriptive statistical tools were used for analysis purpose. Some of the descriptive statistical tools used in this study are: averages, frequency distributions, percentage distributions, tabulations and cross tabulations, graphs, etc.

RESULTS AND DISCUSSION

Before going to the main points of discussion it will be good to describe the nature of the respondents. Table 1 shows the sex composition, religion, age and educational background of head of the household who responded to the interview questionnaire. As shown in Table 1, the majority of the heads of household who responded to the questionnaire are males and Muslims. Table 1 further shows that the majorities of the respondents are in the age interval between 36 and 60 years which are considered as adults and about 78.3% are literate who have some sort of schooling and 14.8% are illiterate.

Microfinance institutions and cooperatives are formal financial sources that reach rural poor population who are not served by the conventional commercial banks. Especially, MFIs that are operating in the study area include Oromia Credit and Saving Share Company (OCSSCO), Harbu Microfinance Share Company, Eshet Microfinance Share Company, etc. Respondents were requested to mention their source of finance when they start agriculture for the first time. Smallholder farmers (72.5 and 27.50%) replied that they use previous saving and inheritance from family as initial source of capital for starting agriculture, respectively. The survey further indicates that smallholder farmers rarely use bank loan and machine lease as a source of initial capital. This goes with the reality that most family members in Ethiopia are engaged in the same activity that their parents have been doing. After starting agricultural activity, farmers need source of finance for purchase of agricultural inputs and for further expansion of their agricultural activity. These sources of finance include credit from cooperatives and microfinance institutions. Specifically, interview with zonal cooperative promotion officers indicate that cooperatives can grant the following three types of credit to their members at least in principle. A short term credit of maximum amount Br.1,500 that should be repaid within a year, a medium term credit of maximum amount Br. 5,000 that should be repaid within three years and a long term credit of maximum amount of Br.7,000 that should be repaid within five years. Each of these credits should be used for short, medium and

Table 1. Demographic characteristics.

Sex of the respondents	%	Religion of the respondents	%
Male	90.0	Christian	24.0
Female	3.0	Muslim	69
Missing	7.0	Missing	7.0
Total	100	Total	100

Age of the respondents	%	Educational background	%
<36	27.0	Illiterate	14.7
36 - 60	57.7	Elementary	65.0
>60	7.8	High School	13.3
Missing	7.5	Missing	7.0
Total	100	Total	100

Table 2. Use of credit and sources of information.

Use of the credit	%	Sources of information	%
Purchase of farm inputs	41.25	Extension agents	57.00
Purchase of farm oxen	28.25	Cooperative Leaders	52.00
Payment for daily labourer	2.50	Local administrators	19.50
Purchase of fixed asset	1.50	Microfinance officers	18.25
Payment for daily consumption	0.75	Friends and relatives	2.25

Source: Survey Data.

long term investment, respectively so that borrowers will payback within the specified time period. Respondents were also requested whether they have obtained any credit from cooperatives or microfinance institutions after starting agriculture and the survey result revealed that only 31.5 and 25.5% of respondents have requested and succeeded in getting credit from cooperatives and MFIs, respectively. Further questions were raised for what purpose they have used the credit and to mention the source of information about the availability of such credit.

Table 2 shows the result of the survey. As shown in Table 2, smallholder farmers used the credit obtained from cooperatives and MFIs mainly for purchase of farm inputs and agricultural oxen. The use of credit from formal source for consumption, purchase of farm equipment and payment to daily labourers is very rare. Specifically, cooperatives play a more significant role in providing agricultural inputs on credit. This result is similar with the finding by Zewdie (2015), in which informal credit is mainly used for consumption-smoothing purposes while formal credit is mainly used to purchase agricultural inputs.

The result further shows that the information about the availability of credit services from cooperatives and MFIs is obtained mainly from agriculture extension workers and cooperative leaders. Interview with district cooperative promotion agency officers indicates that currently, three

extension workers are assigned in each peasant association in different disciplines including plant science, animal science and natural resource management. Hence, farmers have high possibility of contacting either of these agricultural workers.

Farmers who have a frequent contact with extension agents in rural area have more information that will influence their demand for credit from the formal sources including cooperatives and MFIs. If a farmer participates in extension package, then he/she has the chance to get credit for the purchase of farm inputs or technologies. The survey result further shows that about 69 and 72.5% of the respondents either did not requested or requested but not succeeded credit from cooperatives or MFIs, respectively. The reasons for not requesting at all or requested the credit but not succeeded in getting credit from cooperatives and microfinance institutions are shown in Table 3.

A number of factors explain why certain borrowers do not prefer to use formal credit from cooperatives and MFIs. Table 3 clearly shows that lack of interest for loan, long loan procedure and fear of asset risk are the main reasons for not taking credit from cooperatives. Whereas high interest rate, religion, long loan procedure and inconvenient loan repayment period are the main reasons for not taking credit from MFIs. The study by Yehuala (2008), in his survey in Metema district of Amhara region

Table 3. Reasons for not taking credit.

Reasons for not taking credit from coop	%	Reasons for not taking credit from MFIs	%
I do not need loan	32.25	High interest rate charged by MFIs	23.75
Long Loan processing time	7.75	Because of my religion	17.50
I do not want to put my asset at risk	7.75	Long Loan Procedure	14.50
Fear of inability to repay	6.50	Inconvenient Loan repayment period	11.25
Inconvenient repayment period	5.75	No awareness about MFIs services	3.25
High interest rate charged	5.50	Forced Saving required by MFIs	2.25
I do not have saving in the cooperative	2.50	Lack of guarantee for taking Loan	0.50
Long distance from the cooperative	1.00	-	-

Table 4. Credit taking and loan repayment seasons.

Credit taking seasons	%	Loan repayment seasons	%
Spring season	63.00	Autumn season	64.75
Summer season	32.00	Winter season	27.25
Autumn season	5.75	Summer season	1.50
Winter season	2.00	Spring season	0.25
Anytime	1.25	Anytime	0.00

Source: Survey data.

also came up with similar factors that hinder smallholder farmers from accessing formal credit sources. As earlier shown, long loan procedures and inconvenient loan repayment period are two of the common reasons for not taking credit from both cooperatives and MFIs. Specifically, MFIs force smallholders to be organized in groups and agree to the joint liability pressure for repayments of the credits. However, this is not a limit for MFIs but rather an enforcement of property which instead guarantee the viability of the microfinance formula. Smallholder farmers will take credit during active farming season and repay their loan by selling their agricultural output. Therefore, the need for sources of finance and the time at which they will have liquid cash to repay credit is seasonal in nature. In this connection, respondents were requested to mention which season they wish to take credit and indicate the convenient seasons for repaying the loan. Table 4 shows the result of the survey.

As shown in Table 4, majority of the respondents prefer to take credit during spring or summer seasons. This might be because spring and summer seasons are periods in which most agricultural activities takes place in southwest Oromia. During these seasons, farmers need to purchase agricultural inputs including fertilizer, selected seed and pesticide and need cash for the payment of daily labourers. On the other hand, farmers wish to repay the loan they have taken in autumn and winter seasons. This is because these two seasons are harvest seasons in which farmers can take their crops to market. During these seasons, farmers can have liquid cash that enable them to settle their previous bills.

The discussion is related to formal way of financing smallholder farmers. In addition to the formal method of financing, other informal financing mechanism are common among smallholder farmers in Ethiopia. Mobilizing Iqqub is one of the informal financing mechanisms used by smallholder farmers. Out of the total respondents, one-fourth of the smallholder farmers have used Iqqub to mobilize capital. Respondents have mentioned the reasons for preferring Iqqub as a financing mechanism. Increasing cooperation among them (26%), absence of interest payment requirement (24%) and local availability (12.5%) are some of the reasons for using Iqqub as informal financing source. Informal credit is another main source of finance for smallholder farmers. It refers to loans that suppliers extend to their customers upon product purchase or any credit from local friends, trade man, landlords, etc. Respondents were asked whether they have taken any credit from these informal sources and the associated reasons for doing so. Table 5 shows the result of the survey.

As shown in Table 5, significant percentage of smallholder farmers takes credit from informal creditors at least sometimes. The source of credit consists of relatively rich farmers, tradesmen, and sometimes government employees. The transactions are creditors provide cash in advance before the crops are harvested and borrowers are then expected to repay in kind based on previous commitment made with the lender. A very common example is in coffee and chat grower farmers; where the anticipated value during the harvest is advanced to the smallholder farmer and collection is

Table 5. Taking credit from informal sources and the associated reasons.

Have you taken credit from informal creditors?	%	Reasons for taking informal credit	%
Yes always	0.75	Willingness to grant credit	7.61
Yes sometimes	45.25	Easy to obtain	58.15
Not at all	39.75	My Being regular client	3.26
-		No collateral is required	23.91

Source: Survey Data.

made in kind by the creditor at the time of harvesting the crops, and the majorities who make the advances are often coffee or chat traders in the nearby towns. At the time of borrowing, the smallholder farmers usually sign a loan contract in order to avoid default and conflict at the time of harvest. Informal market loans are believed to carry hidden interest over and above the explicit interest or may require the borrower to repay loans taken in kind in terms of a higher quality product which fetches higher price.

There are at least four reasons to take trade credit by smallholder farmers in this arrangement: (i) Ease to obtain credit from the supplier; (ii) Being regular client of the supplier which means regular buyers may establish trust, which increases their chance of getting suppliers credit; (iii) No collateral was required to back up the loans and finally; (vi) Loans from informal sources have no obligations as to how and for what purpose(s) they should be used. The survey respondents vividly indicated that they have never taken credit from local private money lenders who grant credit for the sake of getting high interest because of the harsh major taken by the government on individuals doing such type of business. In Ethiopia, the right to give loan anticipating interest in the future is given to banks and MFIs and it is illegal for individuals to engage in such type of business.

Conclusion

One of the roles of cooperatives is to provide credit to smallholder farmers. The study found that only one-third of the members have taken credit from cooperatives in the last three years. There are a number of reasons for not taking credit from cooperatives by smallholder farmers. Lack of interest for loan, complex loan procedure and fear of asset risk are the main reasons for not taking credit from cooperatives. Though cooperatives are established to provide credit, they are currently very weak to give the required services to their members. This is associated to lack of stability of the cooperatives themselves and absence of commitment of cooperative leaders and members. Cooperatives are organized and reorganized again and again and this has created instability in the members and cooperatives leaders. This will in turn discourage those who are already a member

and those who are planning to join them. Microfinance institutions are formal financial sources that are supposed to reach a large number of rural poor who are not served by the conventional commercial banks. Oromia Credit and Saving Share Company (OCSSCO) is the major state owned financial institutions operating in the study area. The study found that smallholder farmers have less culture of taking credit from MFIs. Some of the reasons for not using MFIs include: high interest rate charged by MFIs, religion, complex loan procedure and inconvenient loan repayment period. This implies that although the government is taking action to support smallholder farmers by expanding MFIs to rural area, still our peasants are not using the alternatives available to them because of the above reasons. The administrative procedure of MFIs is a serious burden to the rural household. Potential borrowers need to form group, hand in application forms, farming plans, and guarantee evidence. These procedures may be too difficult for less educated rural households. Some smallholder farmers have also raised existence of corruption by customer service officers of MFIs. Some customer service officers will request bribe from the borrower smallholder farmers under the pretext of shortening the time to get the loan. Still significant percentage of smallholder farmers takes credit from informal creditors. The source of credit consists of those farmers who are better-off, tradesmen, and sometimes government employees. Creditors provide cash advance before the crop is harvested and borrowers are then expected to repay in kind when harvest time is coming based on previous commitment made with the lender. A very common example is in coffee and Khatt grower farmers; where the anticipated value during the harvest is advanced to the smallholder farmer and collection is made in kind by the creditor at the time of harvesting the crops, and the majorities who make the advances are often coffee or Khatt traders in nearby town. At the time of borrowing, the smallholder farmers usually sign a loan contract in order to avoid default and conflict at the time of harvest. These types of loans are typically short term, characterized with higher profit margin for the lender. This implies that Informal credits play vital role in the life of peasant farmers and any rural development and credit programs should take this reality into account. This indicates that there is much to be done if the rural smallholder farmers in Ethiopia are

going to access and fully utilize agricultural credit.

The majority of smallholder farmers will use trade credit as alternative financing means from suppliers. This may require designing a programme such that financial institutions provide credit to large suppliers of agricultural inputs which in turn would lend it on to smallholder farmers in the form of credit, thereby bypassing the problem posed by the high risk and transaction costs that make them unattractive clients to financial institutions. It may also be used to help smallholder farmers improve their product quality by improving access to modern agricultural tools for mechanized farming.

CONFLICT OF INTERESTS

The authors have not declared any conflict of interests.

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