
Assessing Incentive and Monitoring Schemes in the Corporate Governance of Maltese Co-operatives

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Abstract:

The objectives of this study were to ascertain and assess the major incentive and monitoring schemes currently being applied in Maltese co-operatives as well as those types of schemes that may be applicable. Semi-structured interviews were conducted with ten committees of management members, ten professional managers and seven co-operative consultants.

The study reveals a lack of application of both incentive and monitoring schemes in these entities. An over-emphasis on cost effectiveness is resulting not only in the current little application of such schemes, but also in obstacles towards the application of new ones in the future. Furthermore, any application of monitoring schemes in particular is perceived as having negative implications on the level of trust between the monitor and the monitored.

Additionally, few incentives are being applied to promote co-operative principles despite the declared management willingness to do so. The study points out that a number of lacunas need to be overcome for the realization of both types of schemes. Co-operative managers need to become more aware of the objectives of their co-operative and also more determined towards promoting the co-operative principles.

The paper also concludes that no trust implications need to arise in the implementation of any type of scheme as long as these are well designed, explained and implemented. One recommended way towards promoting monitoring schemes is the introduction of an updated Co-operative Societies Act including new obligations on the internal control environment.

Keywords: Cooperatives, Corporate governance, Incentive Schemes, Monitoring Schemes

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1. Introduction

Co-operation is a leading factor to success and co-operatives were formed with this very idea of mind-that of forming a type of business that will be successful not only economically but also socially and culturally. In fact a co-operative society (or co-operative in short) is defined by the Co-operatives Societies Act (2001) Chapter 442 of the Laws of Malta (CSA) as:

“ an autonomous association of persons united voluntarily to meet their economic, social and cultural needs and aspirations, including employment, through a jointly-owned and democratically-controlled enterprise, in accordance with cooperative principles ” (Art.21, p.9)

Co-operative principles were first developed by the first co-operative society that was set up in England in 1843 when the workers of the textile mills in Rochdale craved to enhance their way of living. They acted on the idea of providing their own necessities and thus formed a co-operative society. The International cooperative alliance, a non-governmental federation representing all co-operatives, lists the seven principles which are the foundation of every co-operative, these being: (i) Voluntary and open membership, (ii) Democratic Member Control, (iii) Member Economic participation, (iv) Autonomy and Independence, (v) Education, Training and information, (vi) Co-operation among co-operatives, and (vii) Concern for Community

These principles are important and relevant wherever co-operatives operate, and Malta is of course no exception. The Maltese co-operative institutional framework is made-up of the Co-operatives Board (CB), the Central Co-operative Fund (CCF), Koperattivi Malta (KM) and Malta Co-operative Federation (MCF), each having their own individual role. Five main types of co-operatives operate in Malta, these being: producer, worker, consumer, social and service co-operatives, all based on their structure of ownership.

In a number of aspects, co-operatives are similar to other types of entities. One aspect is the parallel, if not even greater, importance of corporate governance within such entities. Corporate governance (CG) is the combination of mechanisms to ensure that the management, being the agent, takes into account the benefit of the stakeholders, being the principals (Goergen and Renneboog, 2006). CG within a co-operative is mainly in the hands of three major parties: the committee of management (CoM), professional managers and members that direct and control the co-operative. The separation of ownership and control may pose an agency problem for CG (Kim, Nofsinger *et al*, 2010; El-Chaarani, 2017; Giannarakis, 2016) and the solution proposed to solve this problem is the adequacy of the level of incentive and monitoring schemes in application. These will help align executive interests with those of the shareholders and the board of directors.

Incentives are considered as a reward or compensation for the occurrence of an action with the intent that such action will be repeated. These incentives can be individual or group based, financial or otherwise and are a means of motivating executives to perform their task as efficiently and effectively as possible. Monitoring schemes observe the actions that are taking place and are defined by Jensen and Meckling (1976) as being the observation of one's effort that is accomplished through supervision and accounting controls, among other devices.

Both incentive and monitoring schemes within co-operatives may differ from those of a company but their importance is not diminished. Nevertheless, the extent to which incentive and monitoring schemes have been linked to co-operatives is limited and this is even more so in the Maltese scenario. Baldacchino and Bugeja (2014) stated those in charge of governance in Maltese co-operatives may themselves need to be trained in order to be able to appreciate and introduce such schemes that may help minimise conflict of interest. A study by Hviid (2006) analyzed performance-related pay within Danish co-operatives, and two further studies by Trechter and King (1995) and Trechter *et al* (1998) identified executive compensation patterns as well as researched executive compensation in agricultural co-operatives in two states in the U.S.A. However, to the knowledge of the authors, beyond these main studies, a research gap generally persists relating to such links. Therefore, this paper aims at contributing towards bridging this gap, contributing, in particular, towards helping Maltese co-operatives and others in a similar predicament to look into ways where such links may be or strengthened or even established. Its objectives are to ascertain and assess the major incentive and monitoring schemes currently being applied in Maltese co-operatives as well as those types of schemes that may be applicable.

2. Literature Review

Many forms of businesses focus on one main objective - that of maximizing shareholders' wealth. This is not so in co-operatives where a balance between profitability and meeting the members and the wider community's needs is expected (Ababa, 2012; Ivanova and Bikeeva, 2016). Beyond profit making, the stakeholders are at the centre of the decision-making (Ellwood, 2012; Giannakopoulou *et al.*, 2016; Savina, 2016; Vovchenko *et al.*, 2017; Toudas and Bellas, 2014; Vovchenko *et al.*, 2016).

A recent study by Tabone (2013) concluded that the major reasons for setting up co-operatives in Malta included both the economic benefits from the pooling of resources and the achievement of the economic-social balance. Although the social aspect featured in that study, the emphasis on economic effectiveness was underlined. The priority of such effectiveness was also highlighted by Maslow (1943) in his hierarchy of needs wherein it was underlined that before seeking fulfillment to other needs, one must first ensure economic survival.

However, co-operatives go far beyond financial stability, as attested by their commitment to adhere to the seven co-operative principles. In fact, Prakash (2003) argued that the success of co-operatives should be judged on how well they adhere to the seven principles in their entirety, although this was not that easy. Mizzi (2015) enlarged that such principles are interdependent and ignoring one will have its adverse effect on the others. Conversely, promoting one will help the promotion of the others

Agency problems may persist even given complete adherence to co-operative principles. These emanate from the principal-agent relationships of managers acting on behalf of co-operative members. They may involve goal incongruence, wherein the agent and principal have different objectives in mind, and also information asymmetry with the agent normally possessing more information than the principal. Zajac and Westphal (1994) broke down such asymmetry into possible problems of adverse selection and of moral hazard. The principal may hire or retain the wrong agents leading to adverse selection. Furthermore, with the non-alignment of the interest of the principal and the agents, the latter may act opportunistically, allowing higher salaries and bonuses for themselves at the members' expense. This gives rise to a moral hazard in view of the difficulty of the principal to monitor the agents and to ensure that they are working in the entity's best interest (Darrough and Stoughton, 1986).

Rutherford and Buchholtz (2007) argued that a solution to such agency problems is to focus on both monitoring and incentives. Yet, this remains controversial, as one may argue that incentives are more important than monitoring or vice-versa. The normative and positive principal-agent literature agrees on the fact that the best solution to the principal-agent problem is through incentives. It is believed that the level of monitoring would be set according to the incentives gap between the principal and the agent (Beatty and Zajac, 1994). On the contrary, Trechter et al. (1998), argued that the agency problem in a co-operative is not solved by incentive schemes but with continual oversight by all members.

2.1 Incentive schemes

Rotherborg (2011) defined successful incentives as those aspects that can easily be measured and result in quantifiable data and yet may also be linked to other plans and schemes. He emphasized the need for the promoters of such schemes to avoid any ambiguity and confusion, keeping them simple rather than overly complex, thus minimizing the occurrence of delayed or misleading feedback. This is important as such feedback can link scheme performance to the success of the entity. Pike and Neale (2009) also suggest that incentives should be cost effective and clearly defined. Pairing incentive schemes with other plans of the entity may help align corporate strategy. Furthermore, in the case of co-operatives, one may assume that, given the significance already referred to, co-operative principles will still need to be

adhered to. Such characteristics need to be present in an incentive scheme being devised if it is not to backfire.

Most incentives devised in companies are those of performance-related pay. Hviid (2006) researched such pay within Danish co-operatives and found out that such co-operatives made extensive use of performance-related remuneration. He referred to performance-related measures such as piece rate, profit and revenue sharing, payment relative to the target price or level of productivity and bonuses and penalty schemes for achieving or missing a target. Trechter and King (1995) argued that the measures of co-operative performance on which to base compensation may range from the return on assets to the rate of attraction of new members. However, Hviid (2006) argued that the use of a profit-related measure may be more efficient and powerful.

Performance-related salaries may be common in all entities but their applicability within co-operatives may be limited. In the 2010 consultation paper on co-operative societies, it was emphasized that the existing legal prohibition of most CoM members from receiving a fixed salary was discriminatory and this was also the position taken by the main Maltese co-operative association, Koperattivi Malta (KM, 2010). Trechter et al. (1998) studied managerial compensations in two US states-Minnesota and Wisconsin. They found out that although it included an element of performance-related bonuses, most executive pay in co-operatives consisted of fixed salaries which were normally set at a level positively related to cooperative size in terms of sales volume, total assets and number of members and employees. Another financial incentive that may be used within co-operatives is an honorarium, that is, a voluntary payment for a service usually given as remuneration to CoM members. However, Birchall and Simmons (2004, p.12) found out that since most honoraria payments were low when compared to the minimum pay, this was hardly to be considered an incentive but rather “a buffer against the hidden costs of participation” and a token recognition of the CoM members commitment. Patronage refunds may also be considered as a specific type of financial incentive for co-operative members.

In order to obtain such refunds, members need to patronize their cooperative (Knoeber and Baumer, 1983). Patrons may in fact be both members and non-members, but each has to make use of co-operative services and to agree to share the margins of the co-operatives proportionally (Fredrick and Ingalsbe, 1993). When a net surplus occurs, this will partly belong to the patrons as users and so such part may be partly or fully returned in the form of a refund - a financial incentive in cash given to them to reward their loyalty and adherence to co-operative principles. On the other hand, the patronage surplus may be partly or fully retained instead of refunded as this serves as a key source of finance for the co-operative. The portion that is retained which belongs to members is assigned to their equity accounts and paid out at a later date While patronage refunds are actually voluntary payments,

the lack thereof will signal disloyalty to the co-operative and may lead to co-operative failure (Fredrick and Ingalsbe, 1993).

Other forms of incentives may be dividends derived from the net surplus of the co-operative and distributed to members after transfers, as per the CSA, to the reserve fund and to the Central Co-operative Fund. Additionally, the minimum capital requirement must not be too high but it should be low enough to serve as an incentive for prospective members to join the co-operative. There may also be group incentives offered within a co-operative. These are to be aimed at ensuring that everyone within the co-operative holds similar values and are working towards the same goals and objectives (Birchall and Simmons, 2004).

A non-financial incentive within co-operatives is the provision of education and training to its members. According to Schlösser *et al.* (2013), those with a lower level of education tend not to allot enough significance to education and even to overestimate their ability. Therefore, increasing cooperative members' knowledge and education level is worthwhile in the circumstances, rendering solid adherence of the co-operative to the principle of education, training and information (Mizzi, 2015).

If well-planned and properly devised, incentive schemes do offer a large number of benefits but caution needs to be exercised as they may be subject to the free rider problem. As stated by Tuomela (2013), the philosopher Hume observed the theory of collective action and free rider problem by looking at two farmers. He highlighted that the farmers' corn would ripen on different days and so it would be profitable if they worked together and helped each other harvest the corn. However, each farmer would do so only because he knew that he would benefit from it. If one decided to free ride on the other, both of them would lose their harvest for want of mutual confidence and security. Group incentives are thus mostly exposed to such a free rider problem as an individual's compensation depends on the performance of the whole group.

A further downside of incentives may be that it may motivate fraudulent actions. This is even more so within certain incentives such as performance-related incentives. Offering higher compensation for better performance may motivate management to fraudulently manipulate the financial performance or the level of activity of the co-operative so as to receive the compensation promised. In order to mitigate this problem, monitoring becomes very relevant. Furthermore, incentives may also prompt unhealthy rivalry among members and employees since they are typically given to those with superior performance, a superiority the measurement of which may easily be controversial and judgmental. According to Holtmann and Gramling (2005), incentives should reflect contribution towards the organization, with more compensation being given to those who contribute more to the success of the organization; if not so, staff will be not be motivated.

2.2 Monitoring schemes

Being a continuous process, monitoring should seek improvements and this can only be achieved if schemes involving such a process are able to provide feedback. Each such scheme also needs to operate hand in hand with other schemes already being applied and collect useful data, commonly providing evidence of the cost effectiveness and value for money of the activities being carried out (Kusek and Rist, 2004). In a co-operative, such characteristics will probably also result in the scheme enhancing the co-operative principles.

Monitoring Schemes can take the form of internal control systems. According to COSO (2013), such systems are there to ensure efficient and effective operations, accurate financial reporting and compliance with laws and regulations. They are also to be made up of various components including the control environment, risk assessment, information and communication, and monitoring.

Internal controls may be physical (such as access controls, including cameras, alarms, and locked doors) operational (such as stock counts) or financial (such as reconciliations). These are all different forms of monitoring schemes which are normally used within entities and could possibly be used within co-operatives. Another type of monitoring scheme is the audit of the co-operative financial statements. This is obligatory as per the CSA {(Art.45 (1))} which requires such audits to be carried out on an annual basis by an auditor appointed at each Annual General meeting (AGM). Internal audits may be carried out more frequently and these may serve as a tool to monitor co-operatives and to gather information on their activities. These thus help to mitigate risk and identify control issues in time (Deloitte, 2010).

A Supervisory Board (SB) is another type of monitoring adopted by co-operatives in a two-tier system of corporate governance, wherein, in contrast to the alternative one-tier system, such governance is overseen by two boards - the CoM and the SB. However, it may be difficult for smaller co-operatives to assemble sufficient members to man both boards (Fabri, 2006). In Malta, this may be the reason that the CSA {Art 83(1)} offers the option for co-operatives to either adopt the one-tier or the two tier system.

The significance of monitoring schemes cannot be diminished in any way and, given the free rider problem and related opportunistic actions referred to earlier; some such schemes may always be needed for corporate effectiveness (Enthoven, 2013). However, as stated by Tuomela, (1965), given that trust is essential, co-operative members cannot feel pressed with too much monitoring. In this connection, Fehr and List (2004) added that such members will note that they are effectively being policed and may hence imply that their CoM does not trust them. Such a situation therefore must be balanced against the contrasting possible situation without any monitoring.

Both incentives and monitoring are therefore important tools to motivate the CoM, management and members. Rutherford et al. (2007) argue that incentives and monitoring complement each other and when used together they may offer a solution to the agency problem. It may therefore be beneficial to devise both monitoring and incentive schemes and to determine the right balance. However, both schemes have their associated costs and limitations and one must ensure not going beyond the optimal mix (Zajac and Westphal, 1994).

3. Research Methodology

This study adopted a qualitative stance. CoM and professional management representatives were initially contacted to set up appointments, using telephone or e-mail. Face-to-face semi-structured interviews were used for collecting data from ten CoM and ten management representatives. No more than one CoM and one manager from each co-operative were interviewed so as to enable the collection of different opinions within a wide number of co-operatives. Following these interviews, eleven reputable co-operative consultants were similarly contacted by telephone or via e-mail. These experts were referred to the researchers by the cooperative representatives themselves upon being asked to do so in the previous interviews. Out of the eleven so referred, seven were found available and willing to be interviewed. Semi-structured interviews were similarly carried out with such experts using the same interview schedule of the previous respondent groups. All interview data, including that emerging from further comments were transcribed, merged and categorized to allow for answer comparisons.

4. Research Findings

4.1 Incentive schemes

4.1.1 What incentives do the major co-operative participants (CoM members , Management and members) receive? What would they prefer as incentives?

Insofar as incentives to CoM members are concerned, CoM and management respondents (both together referred to as "Co-op respondents") stated that these are mainly based on honoraria wherever this is permissible by the respective cooperative statute. Some CoM members were considered to be incentivized simply because they receive a salary as co-operative employees or because they receive a minimal value in terms of perks (e.g. mobile phone, fuel allowance, laptops and health insurance). Respondents emphasized that as incentives they would prefer a shift to more significant perks.

With regards to incentives to management, respondent emphasis was on fixed salaries with increments and bonuses. A few respondents highlighted the existence of training schemes. As to what they would prefer, most respondents stated that they would prefer a shift from fixed salaries to performance-related pay and to more

training schemes. With respect to incentives for members, patronage schemes were most highlighted, followed by perks, subsidy schemes and a minimum capital requirement. As to what they would prefer, respondents stated that they would place even more emphasis on patronage schemes.

On their part, the co-operative consultants (referred to as "experts") pointed out that it was evident that current incentives are mainly financial and suggested that, particularly in the case of professional management, the introduction of non-financial incentives, such as a better working environment, would give a superior sense of belonging and recognition. Some added that, given the limited resources of smaller cooperatives, if these were to network for the joint employment of professionals they would be in a position to improve even their financial incentives by ensuring a generous and more market-based compensation rate.

4.1.2 Are incentive schemes incompatible with co-operative principles? What negative aspects could result from providing such incentives?

Co-op respondents reported that incentive schemes are incompatible with co-operative principles as they are commonly controversial, leading to interpersonal rivalry and a motivation to fraud. On the contrary, experts argued that this is not necessarily so as long as such schemes are well planned and that sufficient care is taken for them to be implemented fairly. Some also referred to the need to tackle the free rider problem in case of group incentives.

4.1.3 What are the qualities of good incentive schemes?

As to qualities attributed to good incentive schemes, co-op respondents focused on financially oriented ones such as cost effectiveness and measurability but emphasized that priority could also be given to the enhancement of co-operative principles.

On their part, experts stated that while financially oriented qualities are clearly important, and particularly so in the less rewarding agricultural and fishing sectors, they also concurred that co-op principles are also to be given their importance. However, they stressed that at this stage the co-operatives themselves as yet probably consider co-operative principles as being too theoretical and premature for implementation.

4.1.4 Are incentive schemes applied and applicable to all levels of the co-operative?

All respondents stated that specific incentive schemes, although few, are applied to different levels of the co-operative - that is at the CoM members, management and member levels. As to the applicability of such schemes to all levels, both co-op respondents and experts agreed to this. Yet, some emphasized that there needed to

be more focus on those primarily in charge of the corporate governance of co-operatives that is at the CoM and management levels.

4.1.5 Are current incentive schemes being sufficiently reviewed?

Both co-op respondents and experts argued that while such schemes are being mostly reviewed at the annual general meeting, such reviews were commonly insufficient. Experts added that more detailed information could be made available to members either at the AGM itself or in a separate meeting if such schemes are to be made open for meaningful discussion.

4.2 Monitoring schemes

4.2.1 What monitoring schemes are in place for CoM members, management and members? What would respondents recommend?

As regards existing monitoring schemes for both CoM members and management, co-op respondents and experts stated that priority is being given to both to basic financial controls, such as payment authorizations and the external auditing exercise and also to internal operational controls. With regards to applicable monitoring schemes, most emphasized that while such controls are still to remain a priority, the specific introduction of internal management accounting reports was becoming ever more important. Additionally, experts emphasized that for the sake of good corporate governance the introduction of an audit committee would be a boon and replace the alternative, rarely ever taken up to date, of a supervisory board.

As regards monitoring schemes for members, most co-op respondents and experts stated that regular member meetings are held during the year, during which member-related issues such as loyalty and adherence to regulations are raised. Such meetings are also considered by them to be applicable. Yet, some experts recommended that the introduction a scheme involving formal sanction procedures for non-compliance of members could clearly improve the present position.

4.2.2 Are financial, administrative and operational controls important as monitoring schemes?

All respondents were asked about the monitoring significance of the different types of internal controls: financial, administrative and operational. Most reiterated that while financial controls were of paramount importance, these needed to co-exist with administrative and operational controls.

4.2.3 Do monitoring schemes lead to mistrust? Why or why not?

Co-op respondents were then asked whether monitoring schemes led or could lead to mistrust. They disagreed on this, adding that the issue of mistrust is not necessarily

relevant in such schemes as long as the purposes of such schemes are well understood. When experts were asked about this, they pointed out that issue of mistrust mostly depended on the design and implementation of monitoring schemes. They argued that there are limits to such schemes as over-checks and over-controls would definitely have negative implications. Examples given were physical controls such as the on-site installation of CCTV cameras or data tracks in minibuses: these were considered necessary despite leading to some sense of policing. Some experts added that monitoring tends to be perceived more negatively in the case of employees with a lower level of education, this implying that employee training is an important factor.

4.2.4 What are the qualities of good monitoring schemes?

When asked about the qualities of good monitoring schemes, most co-op respondents and experts stated that the priority present being given in such schemes is cost effectiveness and proper feedback. However, a few emphasized that the enhancement of co-operative principles needs be given more priority than at present.

4.2.5 Are monitoring schemes applied and applicable to all levels of the co-operative?

Respondents were also asked whether monitoring schemes are applied and applicable to all levels of the co-operative. All agreed to this, with a few adding that monitoring at the CoM level was even more important as an inappropriate CoM could lead to both mismanagement and bureaucracy.

4.2.6 Are current monitoring schemes being sufficiently reviewed?

All respondents agreed that such reviews are regularly taking place, although commonly not by CoM members or management but by the external auditors. Experts added that for proper risk management both CoM members and management needed to be much more involved in such reviews.

4.3 Incentives vs monitoring schemes

4.3.1 Are monitoring schemes easier to administer than incentive schemes?

When asked whether monitoring schemes are/will be easier to administer than incentive schemes, co-operative respondents tended to disagree, commenting that no scheme was easier to administer than the other. On their part, most experts also believed that both incentive and monitoring schemes are equally administratively burdensome and that both schemes are time-consuming and costly. However, some of the experts were of the opinion that monitoring schemes, such as internal

organizational controls like segregation of duties, are more administratively challenging given the small size of most of these societies.

4.3.2 Will monitoring schemes ensure as much as incentive ones the participation of all in the co-operative?

Respondents were also asked whether monitoring schemes ensure/will ensure as much as incentives the participation of all in the co-operative. Co-op respondents agreed to such statement for applied as well as for applicable incentive and monitoring schemes. On the contrary, experts stated that incentive schemes increased both individual and group participation in co-operative, but monitoring schemes did not. Yet some pointed out that rather than increasing participation, monitoring increases individual and group performance.

5. Discussion

5.1 On offering the carrot: tackling the lacunas

5.1.1 Are there enough incentives?

A shortage was noted in the incentive schemes being applied in Maltese co-operatives. Too often, all of the three parties-the CoM, management and members were found mostly to have one incentive, honoraria for CoMs, salaries with bonuses and increments for management and patronage refunds for members. As for honoraria given to the CoM, this can be hardly considered as an incentive, since it is given in consideration of “*services which would not otherwise be remunerated*” as is defined in the CSA Art.2.

On their part, management within co-operatives are mostly incentivized through the salary they receive. Yet, this can only be considered an incentive, if it is above and beyond the basic pay. The setting of the target for granting of bonuses seems not to take into account the fulfillment of any social purpose, but only economic performance. Therefore, co-operatives seem to be failing in their promotion of an important element of their objectives. Also, experts indicated that many co-operatives allocate their patronage refund equally among their members. This creates doubts as to whether such manner of distribution effectively incentivizes co-operative members

5.1.2 What about quality? An overemphasis on cost effectiveness

Cost effectiveness is the main objective in the setting up of the few incentives that exist. Furthermore, it is possible that any attempt to introduce some other type of rationale in the near future would meet up with strong resistance. This is particularly so in agricultural and fishing co-operatives, which seem to harbour the more traditional attitudes of restricting their notion of success to short-term economic

gain. The priority that co-op respondents gave to measurability continues to highlight their quest for immediate economic feedback. The indications are therefore that as yet, to date, they do not sufficiently appreciate the advantages of including other prerequisites of incentive schemes such as relevance and coherence with other schemes. Their awareness of the need to promote the social purposes of their co-operatives is probably blinded by their more immediate desire to register profits and attain commercial success.

Success in the social area is not achieved by encouraging a higher level of profit-making, but by stimulating people towards achieving their non-financial objectives. One way this may be carried out is through the creation of incentives towards meeting key performance indicators. Another way of looking at this issue is that most co-operatives are still devoted to meeting the basic physiological and safety needs of their members and there is still some way to go before they deal with the higher member needs of self-esteem and self-actualization. Incentives involving the enhancement of self-esteem such as achievement certificates and medals, trophies for the best products and worker-of-the-year awards are rarely thought of on an individual co-operative level. At the highest level of Maslow's hierarchy of needs, self-actualization, which co-operatives may help members achieve through, say, the allotment of scholarships to them and members of their families, for attendance to higher educational courses such as courses in arts, sciences and professions, is still a far cry from reality. The irony to this situation is that the non-fulfilment of such higher levels of needs is probably in itself a barrier towards the achievement of more economic success.

5.1.3 What about the direction? The lack of promotion of co-operative principles

As already stated, one aspiration of CoM and management representatives is to incentivize the promotion of co-operative principles. For example with respect to the principle of 'voluntary and open membership', incentives may be introduced for existing co-operative members to attract new ones. This may be actively promoted by, say, issuing a certificate of recognition for those managing to introduce new members. Another principle, that of advancing 'education, training and information' may also involve incentives to members, thus, say, attendance to short courses and even longer ones may be made more worthwhile by subsidies and recognition of qualifications for promotions.

The principle of 'co-operation among co-operatives' can be ensured by co-operatives co-operating with entities, particularly those having a parallel or complementary social purpose. This may easily lead to quicker results. For instance, a transport co-operative may forge a partnership with an agricultural one, both networking with each other with mutual understanding. In this case co-operative institutions may again help, offering, say, a prize for the best CoMs arriving at such arrangements in a particular year.

5.1.4 Are they deserved?

A lack of performance-related pay. Performance-related pay in Maltese co-operatives seems as yet to be in its infancy. As already seen, this is clearly so in patronage refunds given in some, although not all, co-operatives wherein the volume of business or other transactions carried out by members are taken into account. This lack of direct linkage to the business performance of members calls for immediate correction if patronage refunds are really meant to be effective as an incentive. Thereafter, once this works well, co-operatives may also look towards other performance-related incentives to members such as taking also into account in compensating them their level of participation in the administrative sub-committees of the co-operative. There is also the need to extend the application of the principle of performance-related compensation to CoMs and professional management. The bulk of the work to introduce such incentives to CoM members includes deciding on the optimal ways to measure performance particularly that related to individual members within the committee. For example, such performance may be measured by independent consultants as against their original programme when elected.

5.1.5 Are carrots healthy? Incentive scheme pitfalls

As respondents made clear, unless properly devised and well implemented, a number of issues may rise. Giving individual incentives may not be practicable for group activities and yet within groups the free rider problem may well demotivate the hard-working elements of the group. In addition, the pre-setting of targets and the quantification of results may be more complex. For example, how can one really measure the quality of an agricultural produce? How can one incentivize the loyalty of members towards the co-operative? Such questions, if not well tackled, could indeed easily lead to inter-member rivalry and controversies.

5.1.6 On using the stick: exercising the controls

Is there a stick? A shortage of monitoring schemes. Clearly, the lack of appropriate incentive schemes is not compensated by the proliferation of monitoring schemes. The findings indicate that such monitoring schemes that exist are often merely basic, being mostly limited to what is required for one to comply with the Co-operative Societies Act, 2002 (CSA). In this connection, the introduction of an updated Co-operative Societies Act including new obligations on the internal control environment could definitely help in the promotion of such schemes.

The setting up and running of a supervisory board is clearly difficult in Malta, as is confirmed by Fabri (2006) and therefore optional as per the CSA Art. 83 (1). In fact, such boards are rarely, if ever, taken up by Maltese co-operatives. Interestingly, their non-existence as a supervisory control is not replaced by any other organ such as by an audit committee as in listed companies and this irrespective of the size of the co-operative.

The setting up of a sound such committee in co-operatives may probably only be possible if co-operative membership is no longer restricted, as it generally is at present, to members having the trade or profession related to the co-operative. Membership would probably need to be extended to other professionals, particularly legal and finance ones. In case the engagement of such professionals may be considered as too expensive in the smaller co-operatives one may adopt the idea, referred to above by the experts, of a network wherein a qualified person may be appointed for a number of separate co-operatives willing to come together and split the salary.

5.1.7 Is it too costly?

Excessive economic reasoning. Unfortunately, the notion of cost effectiveness is also overemphasized in the case of monitoring schemes. For a monitoring scheme to be effective it must not necessarily be clearly cost beneficial in the short run. Too often the benefits of a monitoring scheme are hidden in its unquantifiable prevention of irregularities or in its ensuring the smooth flow of information, or even in ensuring the fulfilment of the social purpose of the co-operative.

5.1.8 Does it work? Trust issues

It is a moot point whether or not monitoring schemes have negative implications on the level of trust between the monitor and the monitored. On the one hand, any type of control should become entrenched in the system and after the lapse of a period of time most personnel should look at it as almost a natural part of their work. However, such thinking assumes that those being controlled understand and agree to the rationale of such a control and the benefits of this if it is being well implemented. A common prerequisite for such understanding is that such personnel are to be encultured within an appropriate internal control environment which includes both the management philosophy and operating style and personnel commitment to competence and to such controls primarily through prior training and education. Trust should not replace formal monitoring schemes, which are found very relevant particularly in times of corporate distress. Yet, even the best monitoring schemes need to be kept within a reasonable level as although they may be well intentioned, too much monitoring may ultimately be ineffective if it creates a sense of policing rather than that of value adding.

5.1.9 The carrot or the stick? Incentive vs. monitoring schemes

In comparing both types of schemes, one will generally notice that monitoring schemes are an attempt to enforce optimal performance which is commonly successful irrespective of the preferences of the person being monitored. Monitoring can therefore easily have implications of fear and mistrust especially if such schemes are not seen as fair and accurate. On the other hand, incentive schemes involve a

different attempt – that of raising the level of motivation in personnel towards participating with a more positive attitude. Success with incentive schemes therefore hinges not only on the fairness and accuracy of measurement of such schemes but also on the participants being persuaded that it is in their interest to reach the conditions attached to such an incentive. Therefore, given the right conditions, the person utilizing an incentive scheme has more chance of being satisfied with its successful implementation and this may probably be demonstrated by a higher level of trust when implementing such schemes rather than monitoring ones. Yet, probably both types of schemes need to be working side by side, complementing each other.

6. Conclusion

The level of incentive schemes currently applied in Maltese co-operatives is low and performance-related pay is practically unknown. Financial incentives are much more appreciated than non-monetary ones by co-operative representatives and this is probably because they are as yet unaware of the diverse benefits of non-financial incentives. Incentive schemes are not flawless and unless properly implemented are subject to pitfalls such as controversies and interpersonal rivalry. Co-operative representatives overestimate cost effectiveness and measurability of incentive schemes - both highlighting the co-operatives' need for immediacy and short-term economic success- to the detriment of other qualities.

As for monitoring schemes, those being applied are generally minimum ones. Priority is given to monitoring schemes being cost effective, this consideration dominating that of feedback, the enhancement of co-operative principles and coherence with other schemes. While both types of schemes were reported to be administratively burdensome, costly and time-consuming, a mix of both is probably optimal to enhance both participation and performance.

This study concludes that much more needs to be done with respect to the implementation of both incentive and monitoring schemes. The major lacunas seem to have deeper roots such as insufficient awareness of the goals of co-operatives, this resulting in barriers to the creation of worthwhile incentives and relevant monitoring schemes. The application of more incentives and monitoring schemes may not necessarily be carried out to the detriment of trust as long as they are not overdone and complement each other. In particular, they are also to be well designed, explained and implemented. Furthermore, one recommended way towards promoting monitoring schemes is the introduction of an updated Co-operative Societies Act including new obligations on the internal control environment.

The study is subject to a number of limitations. Unlike representatives of producer, worker, consumer and service co-operative social co-operative representatives were not included in the study because none of the three of this type of were willing to participate and therefore the results cannot reflect their position with respect to the

two types of schemes. Furthermore, the study focused on those co-operatives (out of the 68 in operation) with the highest number of members as at 31 October, 2015 and which were willing to participate, and findings may therefore not necessarily be applicable to the smaller enterprises. Finally, the number of expert consultants participating in the study was also restricted given the limited expertise available in this sector.

The study recommends that a follow-up study be initiated focusing on the legal, managerial social, economic, and financial reporting barriers facing Maltese co-operatives, some of which became evident in the course of this study. Furthermore, no Key Performance Indicators were noted during the study with respect to the social dimension of Maltese co-operatives, and a future study may do well to delve into this.

As a final word it is no use instituting any type of scheme unless the understanding of all those to whom they are to apply is first ensured. Indeed, as Winston Churchill famously put it: "There are two ways of securing cooperation in human action. You get cooperation by controls or you get it by comprehension" (Humes, 1994).

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