

Studying the Impact of Government Support on SME Cooperative Companies' Financial Status

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ABSTRACT

Purpose-The main purpose of this article is to study and highlight the important role of government support in promoting and developing cooperative companies. This paper studies the impact of government support on SME cooperative companies' financial status in Iran.

Design/methodology/approach- This research is conducted by using questionnaires as its tool. They are completed by companies' CEOs. Sample size is calculated based on Chocran formula. Based on the questionnaires six hypotheses are introduced. Validity of the questionnaire is achieved by consulting with research experts and reliability of it is measured by using Coronbach Alpha coefficient ($\alpha=0.83$). To analyze the data from the questionnaires, SPSS statistical software (Ver.13) is used. Finally the results are evaluated descriptively and analytically.

Findings- Regarding Coronbach Alpha of 0.83, five hypotheses-from six – about different roles of government's support including administrative and legal support, educational role, promotional role, exploratory role, supervisory role, and financial support and its influence on cooperative companies financial status are confirmed.

Key Words: Cooperative Company, Government support, Control, Financial status.

INTRODUCTION

The subject of government support for cooperative companies and unions, especially from its economical aspect, has always been in the spotlight of the specialists and policy makers. Since the main reason for poverty in developing countries is that people of those countries do not have economical opportunities and they cannot participate in decision making process about their economical and social future, cooperative companies should be supported by different ways.

It's clear that mutual effort of governments and people is the critical element for the progression of cooperative companies and actual promotion of their activity levels. The problem which people of the developing countries face, is that they don't have enough financial power to invest and suffer from lack of necessary skills, so governments, by providing financial facilities, can support cooperative companies and promote their function. In order to reach the optimal result from their support, governments should also control cooperative companies programs.

This article tries, by a descriptive – functional structure, to analyze different roles of government in supporting cooperative companies and its impact on their financial status.

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2-Theoretical framework

Policy making for supporting cooperative companies is significantly important, so what government expects the cooperative companies to do and, in return, their expectations from government should be distinguished. Moreover, determining the nature of any kind of support is also vitally important. It should be mentioned that government support for cooperative companies is not important just from economical point of view; political and social considerations in this field are also significant. Of critical importance for cooperative companies is their independence, but their independence doesn't mean that they don't need government support. In developing countries, supporting cooperative companies is one of the strategic subjects for these kinds of companies. The fact that in developing countries some upper classes prevent cooperative companies to develop and improve their situation, and by doing this put their working life in jeopardy, indicates the vital role of government support.

Governments over control, like some cases in Asian and African countries, have some consequences that finally results in cooperative companies become public organizations. In many developing countries, governments, mention some reasons to justify their over control on companies. They indicate that their people still believe in traditional values, they are less literate and have no idea about the importance of cooperation in a cooperative framework, so they need more time to become familiar with group working rules – cooperation rules - and follow them. Although, initially the aim is to establish cooperative companies and guarantee their continuity and survival, some Asian and African governments go beyond this and interfere in every aspect of these companies' affairs thus put their development in danger (Agahi, 1384, 81).

3- Taxation systems

Governments support cooperative organizations in many ways, one of them is using different *taxationsystems*. In cooperative companies, tax is only allocated to the benefits that every member gains or generally includes benefits which are considered total income of that company. In some cases received benefits are not subject to taxation because they can be interpreted as common property – belonged to every member - and they are just subject to taxation when distributed among each member individually.

3-1 Government contracts

Since in many developing countries governments want their administrative body to be small, the role of cooperative companies is important and focusing on these kinds of companies, as economical – social organizations, is necessary for governments.

Governments trust these companies and give them the opportunity to undertake their key commercial role and services, by doing this; they support these companies and encourage them to increase their efforts.

Today, many developing countries focus on extending cooperative companies as a part of their developmental programs. Thus encouraging cooperation is generally considered as a political tool for development in these countries (UNESCO: 10 – 15).

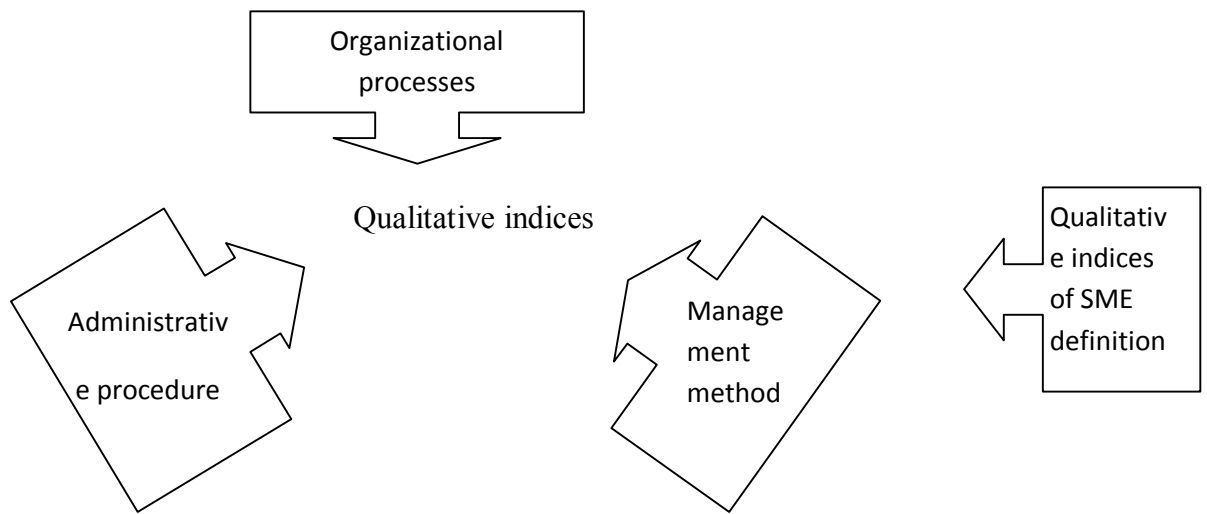
In Asian countries it is expected that, by using cooperative programs, production in agriculture and industry section will increase (Boner, 1349, 20 – 30).

In this research cooperative companies which have less than 15 members are ignored because they may include family members and companies which their characteristics are based on SME standards are studied.

Small and medium enterprises (SMEs) are defined from two point of views (Loecher, 2000):

- Quantitative: SME refers to a company which its size – regarding the number of its employees - is limited. In this case special indices for benefit, investment, balance sheet for the whole property, commercial status, amount of production and sale, number of the employees, and annual financial status are considered.

Qualitative: SMEs have special characteristics regarding management method, organizational process, and administrative procedure which make them distinguishable from large companies (Mottaghtalab, 1384; 310).



SMEs role in sustainable development

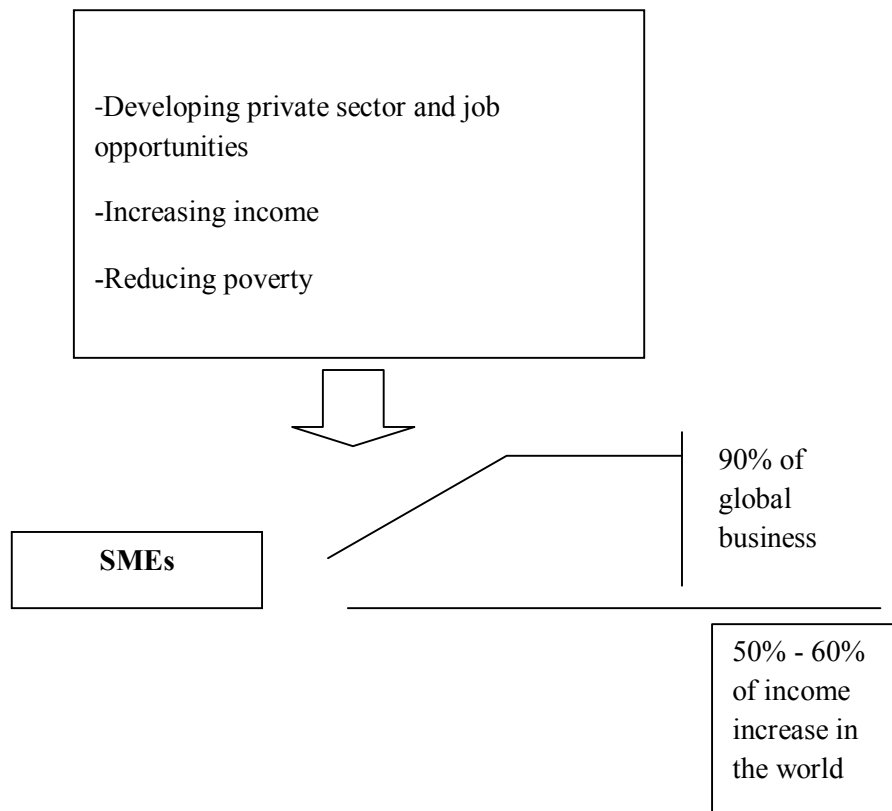


Figure 1: SME Defines an Index

4- Methods for measuring the performance of the companies

Non- financial evaluation measures are in the heart of defining a strategy and creating a unique collection of performance evaluation measures which clearly indicates and transfers the strategy and helps its implementation (Frigo, 2002).

Frigo (2002) indicates that there is a gap between strategy evaluation measures and performance which results in the failure of supporting indication of a strategy within an organization. Andre and (Saravia, 2000) also mention that there is a large gap between existing models and new methods in Portuguese companies. (Hudson et al, 2001) came to the result that although there is a vast consensus about strategic performance evaluation in studied SMEs, none of them tried to redesign or update their recent performance evaluation systems. Many advantage models and performance evaluation frameworks such as EFQM advantage model (2001) , Business score card (Kanji , Sa , 2002) , Performance charter (Neely et al. , 2002) , and Balanced score card (Kaplan , Norton , 1992) suggested ways to use TQM philosophy . According to Ahmad (2002) , most popular models which researchers are interested in , are : Balanced score card and EFQM , for example ; Kanji , Sa (2002) indicate that suggested new method for performance evaluation in balanced score card is compatible with business advantage and TQM . Balanced score card is related to both small organizations and the large ones. However, there is no comprehensive study, literature, and experimental research about implementing balanced score card in SMEs (Anderson et al., 2001). During past decade, interests in quality awards and TQM, emphasized the importance of performance indices to reach quality advantage. Quality evaluation measures show the most positive steps taken today to develop the basis for business performance (Bogam, English, 1994). Advantage models and progress initiatives based on TQM principles, reflect not only the importance of characteristics acceptance, but also the importance of organizations stakeholders' satisfaction. The link between TQM and organizational performance is important (Samson , Terziovski , 1999) and studying and implementing TQM , despite of some contrasting cases (Thomson , Shaffer , 1992 ; Ittner , Lareker , 1997 ; Serman et al.,1997 ; Wilber , 2002) , is related to quality performance (Brah et al. , 2002) . Many TQM failures in small organizations relate to poor performance processes and strategies (Hansson, Klefsjo, 2003). Wood and Childe (2003) show that creating a link between improvement actions, action improvement, and performance and its requirements, is possible.

One of the most important aspects of reviewing ISO 9001 and ISO 9004 , 2000 , is adopting process method for quality management systems (TQM) (Hooper , 2001) . New ISO 9001 and ISO 2002 standards require decisions based on facts, evaluation, and continuous improvement of performance results (Karapetrovic, Willborn, 2002) . These changes, somehow, fill the gap between requirements of a QMS and those of a EFQM advantage model. Both of them reinforce the need for evaluating important factors which are necessary for the success of an organization, and strengthen the need for evaluating stakeholders' satisfaction in order to make possible and guarantee the continuous improvement with strategy (D. Sergio, 2006).

SME characteristics and performance evaluation method

For this study, the definition of SME presented by EU is adopted:

Small and Medium Enterprises (SMEs), comprise of institutes which have less than 250 employees, their annual turnover doesn't exceed 50 million €, and / or their annual balance sheet total is not more than 43 million € (EC, 2005).

However, numbers are extensively used to identify whether a company is an SME or not. Authors of this article believe that those cooperative companies which have SME structure can be better studied as a statistical population, since cooperative companies which have limited members, are usually managed by family members and very large cooperative companies mostly have non- financial mission, they try to develop services to stakeholders and members. Although this is not for certain and there are many very large and very small companies which have financial goals. In fact, despite of identified heterogeneity in SMEs, it seems that there is a consensus among researchers in this field about this fact that many SMEs have common general characteristics (Hudson et al., 2001). In order to identify these characteristics, an article study has been conducted and many articles which focused on SMEs in many fields, have been analyzed (Alberti, Cocca, 2009). All these characteristics are categorized in two groups: inner environment and outer environment. Outer environment shows a situation in which, organizations and factors work out of control of organizational

members. It is divided into two subcategories: market and customer. Inner environment includes factors which are within the company or under control of the managers such as human resource and financial resource and activity method- how to manage them. Regarding outer environment, this study shows that SMEs work in very competitive and unstable markets (Garengo et al., 2005). They usually has no control on or influence in the market, thus they should adopt reaction method to adapt with market changes (Hudson, 2001). Since SMEs rely on a limited customer basis, usually are closer to customers and can have a personal relation with them (Hong, Jeong, 2006). However, sometimes, this can result in changing and different relations with customers. SMEs often have customers who are attracted through supply chain; this implies the difficulties in influence and power to pay debts and consequently in facing cash flow fluctuations which result in losing control on the future (Hudson, 2001). From an inner point of view, all authors emphasize on the rareness of sources as one of the main problems of SMEs and believe that it is the common feature of them (Singh et al., 2008). The term “sources” is also considered in relation with staff, it includes managerial time, security, and financial stability. Moreover, skills are limited, not only among employees (Singh et al., 2008), but also among owners – managers who often do not have enough organizational abilities or managerial skills. This implies poor strategic business programming and weak human resource management (Ponsiri, Temtime, 2008).

So the research model is introduced as follow:

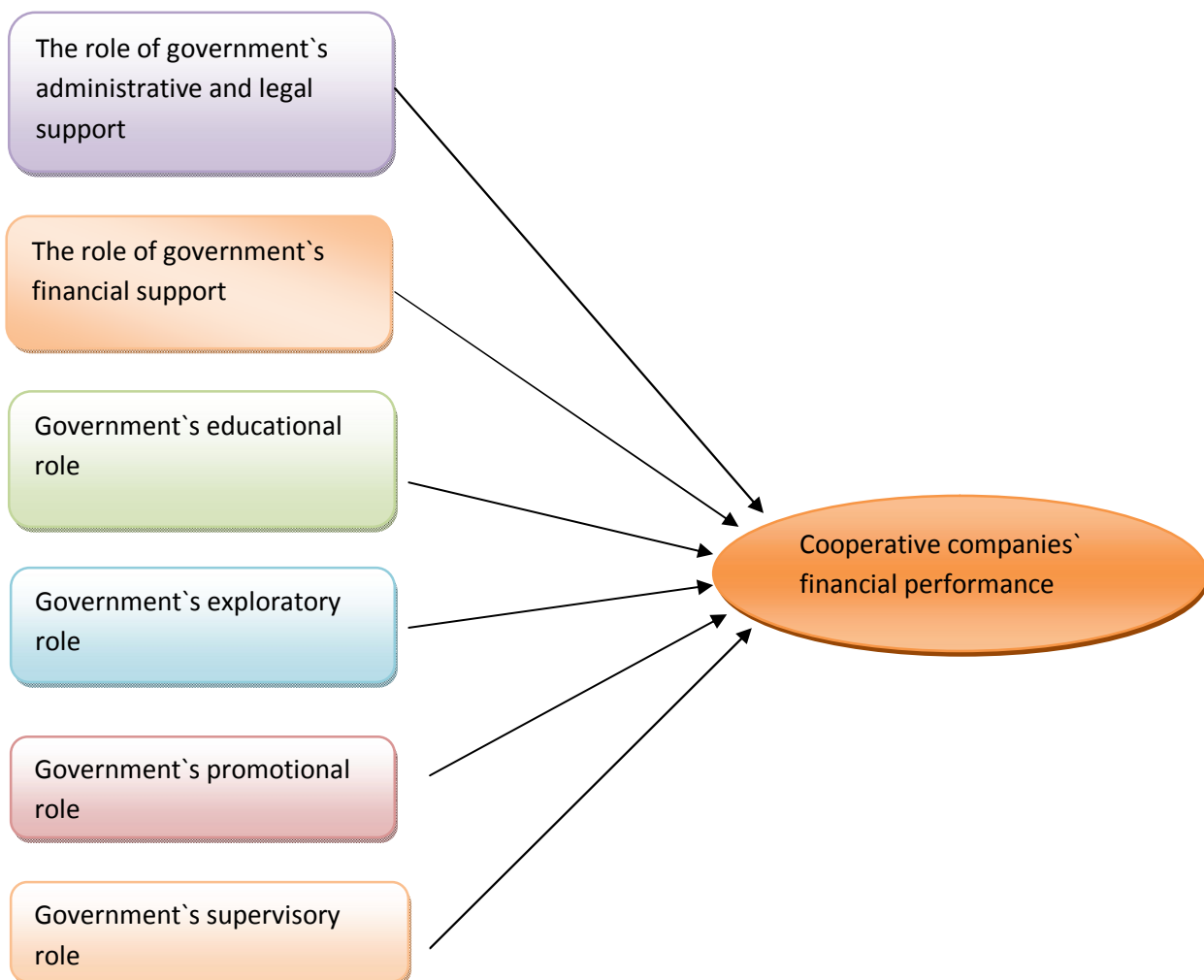


Figure 2: conceptual model

The hypotheses will be:

1. Government's administrative and legal support will positively affect cooperative companies' financial performance.
 2. Government's financial support will positively affect cooperative companies' financial performance.
 3. Government's educational role will positively affect cooperative companies' financial performance.
 4. Government's exploratory role will positively affect cooperative companies' financial performance.
 5. Government's supervisory role will positively affect cooperative companies' financial performance.
- Government's promotional role will positively affect cooperative companies' financial performance.

5- Methodology of Research

This research is conducted by descriptive-applied method; the statistical population includes all of the cooperative companies in Iran - more than 1415 companies - which have SME structure. To estimate the sample size, Chocran formula is used:

$$n = \frac{N(1.96)^2 p.q}{N(0.05)^2 + (1.96)^2(p.q)}$$

$$n = \frac{(0.5)(0.5)(1.96)^2 1415}{(0.5)(0.5) 275(0.05)^2 + (1.96)^2} = 305$$

Based on the results, sample size is 305 companies, in order to avoid any mistake it is increased to 310. It is worthy to mention that in this research random sampling method is used for selecting the sample.

Tools for gathering information in this research are:

- a. Librarian information gathering and documentary research to compose literature and theoretical discussions of the research.
- b. Questionnaire for gathering necessary information to test hypotheses in order to study respondents' answers.

In order to measure the validity of the questionnaire, two methods are used: group comment (specialists and experts) and logical reasoning. Resulted information is analyzed by statistical test (Coronbach Alpha). Resulted Coronbach Alpha is 0.83 which has necessary reliability.

6- Data analysis method

Data from this research, after gathering the samples through questionnaires, is analyzed by using SPSS.Ver.13 statistical software. Tools for data analysis are:

- Frequency distribution tables for respondents' individual and organizational variables.
- Frequency distribution tables for the questionnaires' answers to the questionnaires.
- Coronbach Alpha to study the reliability of the questionnaire.
- Pearson correlation coefficient test to study the relation between variables of the research.

Regression test to study the simultaneous impact of independent variables on dependent variable.

7- Research Findings

Research hypotheses	Meaningfulness level	Hypotheses status
H1- The role of government's administrative and legal support and cooperative companies financial status	0.005	confirmed
H2- Government's educational role and cooperative companies financial status	0.001	confirmed
H3- Government's promotional role and cooperative companies financial status	0.08	rejected
H4- Government's exploratory role and cooperative companies financial status	0.001	confirmed
H5- Government's supervisory role and cooperative companies financial status	0.004	confirmed
H6- The role of government's financial support and cooperative companies financial status	0.001	confirmed

8- Conclusions and Suggestions

- In order to reinforce the role of government's administrative and legal support, and facilitate the process of decision making for the managers, it is suggested that experts from public administrations who have enough experience in legal and administrative fields, work and consult with cooperative companies.

- It is suggested that, in order to strengthen government's educational role, training courses to be held in the companies in which all of the workforces can attend and benefit from experienced teachers.

- Considering government's promotional and research role, it is suggested, regarding investment opportunities and regional plans which have priority over other plans, these kinds of activities performed in different regions and towns and the focus should be on the quality of these companies-their performance-rather than their quantity-their number.

Regarding government's supervisory role, researchers believe that it's better government have systematic control over cooperative companies' activities and avoid direct interference in their affairs.

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