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The Pro-Decentralization Effect on Management of Local Enterprises: A Structural Model of the Case of Bamenda III municipality Mezam Division, Cameroon

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ABSTRACT.

The study was aimed at investigating the effect of pro-decentralization on management of local enterprises in Bamenda III municipality, North West Region of Cameroon. Data was derived through the use of questionnaire on a sample of 500 registered voters and businessmen who have knowledge of local enterprises in Bamenda III using purposive sampling approach. The objective was achieved by applying maximum likelihood estimation technique of structural equation modelling using SmartPLS software version 2. The empirical results revealed that pro-decentralization has a significant positive effect on the management of local enterprises and corruption orientation. Corruption orientation has a negative influence on the management of local enterprises, though not found to be significant. The finding indicated that a unit increase in pro-decentralization has the tendency to improve the management of local enterprises to the tune of 63%. The study therefore recommends that policies of decentralization should be corruption free and should be directed towards enhancing service quality of local enterprises.

Keywords: *Pro-decentralization, Management of Local enterprises, Structural Equation, Cameroon*

INTRODUCTION

In recent decade decentralization is recognised as a mechanism that can be used to modernise the functioning of the state by transferring power and competencies from public authorities to local communities around the territory. The pro-decentralization opponents in the literature argued that decentralization has the tendency to improve on the welfare of the local communities since it enhances public sector efficiency (Saavedra, 2004; Letelier, 2001; Lindaman and Thurmaier, 2002). The supporters of decentralization further added that decentralization reduces corruption and therefore enhances good governance and improvement of the allocation of resources (De Mello, 2000a; Fisman & Gatti, 2002; Martinez-Vazquez and McNab, 2003). The extent to which pro-decentralization affects the management of local enterprises is yet to receive sufficient empirical attention.

Some empirical evidences suggest that the effect of decentralization on the management of local enterprises can be better understood through the perception of corruption orientation of the people. Huther and Shah (1998) on their work on good governance and fiscal decentralization found out a significant and strong positive correlation between good governance and fiscal decentralization. Even though fiscal decentralization improved good governance, Von-Braun and Grote (2002) indicated that the level of fiscal decentralization related to good governance demonstrates a potential relationship between corruption and decentralization. These empirical findings suggest that the effect of pro-decentralization on the management of local enterprises can be mediated by gauging the perception of the local people on corruption orientation.

Management of local enterprises has been criticized on the grounds of lack of accountability and no caring for the welfare of those whom they are supposed to serve. Citizens have even questioned as to who benefits from centralization. It has also been argued that poor management of local enterprises is due to corrupt practices of public officers and politicians in regard to diversion and misappropriation of state funds as well as exploitation of the tax payers. Lack of active involvement of the local people is also a concern.

The effect of decentralization on management of local enterprises is yet to receive substantial empirical attention. For instance, King and Ozler (1998) in evaluating a program of transforming key management tasks in public schools from central authorities to local authorities involving parents that was initiated in 1990s in Nicaragua, found that transfers have a significant and positive effect on student performance. Moreover, their findings suggest that students from schools that do not have autonomy do not perform well on the achievement test while those schools with de facto autonomy performed well. Another study by World Development Report in 1994, posited that giving part of the responsibility of management to local communities in infrastructure projects led to quality improvement and cost savings.

However, most of the studies have established a linked between decentralization and allocation of public resources (Azfar, Kahkonen and Meagher, 2000; King and O'zler, 1998) as well as decentralization and local development. Bardhan (2002) in an empirical exposition of decentralization on governance and development arrived at the conclusion that decentralization in the context of development is still in its infancy. Furthermore, it is argued that decentralization that ensures service deliveries, development of local businesses, control rights in governance calls for more devolution of power to the local authorities and communities. The study indicated that in 1994 in Bolivia there was a massive change of public resources from central government to municipalities and also from large scale production to social sectors. Faguet (2001) in examining the effect of decentralization on government responsiveness to local needs in Bolivia, found out that public investment in education, water and sanitation were significant in most of the municipalities.

Alderman (1998) examined the survey on the social assistance program in Albania that was carried out in 1996 and came to conclude that there have been modest gains in targeting efficiency and cost-effectiveness after decentralization. And in addition, the local authorities use more information in allocating program benefits among households. Despite the numerous studies on the consequences of decentralization (Foster and Rosenzweig, 2001), no exact direction is confirmed.

Treisman (2000) argued that governments differ in the quality of public goods and services that they provide to the public. Some studies argued that some governments are extremely corrupt, ineffective, wasteful, lack the will to satisfied the needs of its citizens whilst other studies instead argued that some governments are honest, effective, reliable and efficient towards the delivery of public goods and services (La Porta et al., 1999; Treisman, 2000; Lipset and Lenz, 1999).

While some studies have focus on investigating the different types of decentralization, others focus on the determinants or factors that account for the different types of decentralization. Some studies instead respond to the question of whether more decentralized states are most likely to improve the quality of government (or local enterprises) such as encouraging competition, efficient allocation and distribution of resources, inclusive local involvement by bringing the voted officials closer to the people (Treisman, 2000; Fisman and Gatti,2002).

Pro-decentralization thesis has identified three windows on which decentralization can affect the people they are supposed to serve. Firstly, it is argued that one of the gains of transferring authority and competences to the local institutions is that officials of such institutions and politicians will get closer to the people they are supposed to serve so as to gain their trusts. In addition, the likelihoods of the incumbent public officers to be re-elected depends on the relationship they have with the people they governed as well as the economic performance during their periods in power. The more the people are satisfied, the more they became more involved in the management of local enterprises. The authority will better understand the need of its people and therefore stand the chance to design efficient public policy to target the welfare of its people (Saavedra, 2004). Secondly, the hypothesis examined the relationship between decentralization and functioning of the market. It is argued that efficient policies governing the functioning of the market can be designed; market participants will be more willing to corporate with the local governments, hence efficient allocation of resources. Thirdly, the pro-decentralization thesis is based on the Leviathan hypothesis. Leviathan hypothesis states that decentralisation prevents tax payer's exploitation by government bureaucrats by protecting citizens from the menace of Leviathan.

It is on the basis of this justification that the study aimed at investigating the effect of pro-decentralization on management of local enterprises. Based on this objective, the study is guided by the hypothesis that corruption orientation does not mediate the effect of pro-decentralization on management of local enterprises in Bamenda III of the North West Region of Cameroon.

After this introduction, the rest of the paper is divided into three sections. Section 2 on methodology includes model specification and estimation, the empirical estimation of factor analysis and confirmatory factor analysis. In section 3 for presentation and discussion of results, results of the descriptive statistics and path regression are presented. The last section draws conclusion and recommendation with focus on the policy implications of the results.

2. METHODOLOGY

Research Design

The study adopts both qualitative and quantitative research designs. The qualitative approach uses questionnaires as the main tool for the collection of primary data. Quantitative data was obtained after coding and keying in the data into the software statistical package of social sciences (SPSS) version 23.

Sampling Methods and Sample Size

The study uses purposive sampling approach in selecting a sample of registered voters and businessmen who have knowledge of local enterprises in Bamenda III in the North West Region of Cameroon.

Validation Analysis

Convergent validity measures the degree of agreement between two or more indicators of the same construct (Carmines, & Zeller, 1979). It measures the extent to which a set of items on the questionnaire actually reflect the theoretical latent (or unobserved) construct they are designed to measure. It also refers to a set of indicators (question items) that presume to measure a construct. In the study convergent validity was assessed following the recommendation of Thalut et al (2020) and that of Fornell & Larcker (1981). Both studies agreed when the average variance extracted is greater and equal to 0.5 or when all the factor loadings patterning to a construct is 0.5 and above, we concluded that there is evidence of convergence validity.

Discriminant validity (DV) captures the extent to which a construct is distinct from other constructs (Carmines, & Zeller, 1979; Thalut *et al*, 2020). One of the common measures of discriminant validity is cross-loadings. However, in the study discriminant analysis was assessed by comparing the square of the average variance extracted with the coefficient of correlation between decentralization, corruption orientation and management of local enterprises. Based on Fornell & Larcker (1981) criteria, if the square of the average variance extracted exceed the coefficient of correlation between the constructs, the decision rule is that there is evidence of discriminant validity.

Construct reliability (CR) measures the level of internal consistency of the items under the constructs (Ofeh & Thalut, 2018; Thalut et al., 2020). The items are considered reliable if the construct reliability is 0.7 and above for confirmatory study and 0.5 and above for exploratory study as recommended by Hulland (1999) and Cronbach (1951). This is essential in establishing the accuracy of the estimates otherwise the path estimates may be unbiased.

Skewness and Kurtosis were used to test for multivariate normality. Thalut et al., (2020) recommends that a data is normally distributed if the skewness for the various items ranges between -2 to +2 while kurtosis score ranges between -7 to +7. The outliers test was performed by dividing the Mahalanobis d-squared (MAH-DS) with the number of indicators and assessed if the MAH-DS value is greater than 4 as suggested by Bentler (1992). The test is necessary to established if the data is plague with potential outliers. Estimation of the model with the present of outliers will likely result to under or over-estimation.

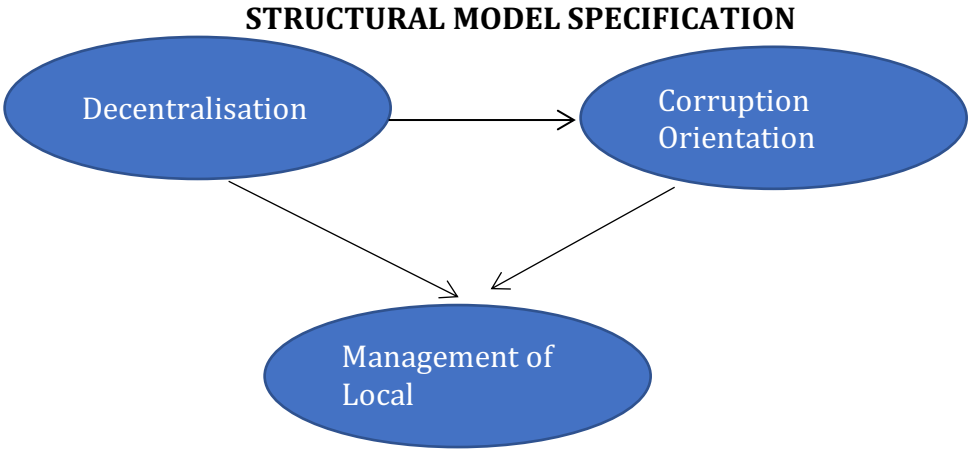


Figure 1: **The structural model decentralization and Management of Local Enterprise**

Decentralization is multifaceted and is captured in the study using a set of questions on the questionnaire. Decentralization in the study is exogenous and it is presumed to have an effect on both corruption orientations of the local community and management of local enterprises. The causal relationship between decentralization, corruption and management of local enterprise is informed by the studies of La Porta et al.,1999; Treisman, 2000; Lipset and Lenz, 1999, and Alderman (1998) who examined the survey on the social assistance program in Albania that was carry out in 1996, and concluded that there have been modest gains in targeting efficiency and cost-effectiveness after decentralization. Corruption orientation is a mediator variable, mediating the effect of decentralization on management of local enterprises.

Functional Model Specification

$$MLE = f(CUO, PDE) \qquad (1)$$

Where; MLE stands for management of local enterprises, CUO is corruption orientation while PDE stands for pro-decentralization. The empirical model derived from the functional model is as stated below.

The empirical model is specified as

$$MLE_i = \alpha + \beta CUO_i + \lambda PDE + \epsilon_i \qquad (2)$$

Where α is the constant term, β, λ are the parameters to be estimated capturing the impact of changes in each of the latent exogenous variables on the endogenous variable and ε is the stochastic error term, and subscript i is cross section of individual from which the questionnaire was administered. The theoretical expectations show the direction of effect of changes in each of the exogenous variables on endogenous variables. In summary, the apriori expected signs are; $\alpha>0$, $\beta<0$, $\beta>0$, and $\lambda>0$.

Estimation Techniques

The study applied maximum likelihood estimation technique of structural equation modelling using SmartPLS software version 2 in estimating the parameters. In other words, the study adopted a two stage structural equation modelling approach; exploratory factor and path regression analysis. This technique of analysis is importance for three major reasons. Firstly, it ensures that the instrument used in the measurement of a construct is accurately measured with a certain level of precision. This is essential as it helps to reduce measurement error bias that

may have resulted from measurement error related endogeneity issue. This was achieved empirically with the reliability test. The reliability is corroborated with convergent and discriminant validity test. Secondly, the structural equation modelling using Smartpls is very useful in exploratory studies as both the inner and outer models are simultaneously tested. The inner model shows the relationship between decentralization, corruption orientation and management of local enterprises while the outer model shows the relationship between the construct and the manifest indicators. Thirdly, this technique reduces the problem of multicollinearity since the items that load under a particular construct are orthogonal to the other constructs. This was confirmed using convergent and discriminant validity test.

RESULTS AND DISCUSSION OF FINDINGS

Table 1: Results of the Test of Convergence Validity

Constructs	Average Variance Extracted (AVE)
CUO	0.587698
MLE	0.560949
PDE	0.432979

The average variance extracted was well above the recommended cut-off criteria of 0.5 for the construct corruption orientation (CUO) and management of local enterprises except for pro-decentralization. The results revealed that there is evidence of convergence validity between the constructs in the study.

Table 2: Results of the Test of Discriminant Validity

Constructs	CUO	MLE	PDE
CUO	0.7666		
MLE	0.305457	0.74896	
PDE	0.560697	0.605053	0.658

The results in table 2 show strong evidence of discriminant validity. This means that the indicators of the constructs reflect only the theoretical concept it is measuring and no other concepts or error components. We proceed to present the results of the reliability test as observed below.

Table 3: Results of the Test of Reliability

	Composite Reliability	Cronbachs Alpha
CUO	0.736215	0.314692
MLE	0.792315	0.607207
PDE	0.740255	0.521270

The results in table 3 show strong evidence of internal consistency as the composite reliabilities for all the constructs were well above the minimum cut-off criteria of 0.6 recommended by Ofeh and Thalut, (2018) and Thalut et al., (2020). The implication of this finding is that the indicators that were used in measuring the constructs were pro decentralization, corruption orientation and management of local enterprises.

Measurability of the Constructs

Table 4: Results of the Outer Model Loadings

Items	CUO	MLE	PDE
Q15	0.869601		
Q17	0.647449		
Q19		0.674853	
Q20		0.786889	
Q22		0.779889	
Q10			0.811088
Q12			0.466099
Q13			0.800539
Q14			0.464692

The results in table 4 show the factor loadings under the various constructs in the study. Any item with a loading factor of less than 0.5 was discarded since the proportion of the unexplained variance in the component where it loads was very high. The loading of a factor shows the extent to which an item contributes to a factor. The results revealed that items 15 and 17 on the questionnaire load to corruption orientations. Three items on the questionnaire, that is, items 19, 20 and 22 load to management of local enterprises while 4 items load to the construct of pro decentralization. The results of the fitted partial least square model are presented in Figure 1.

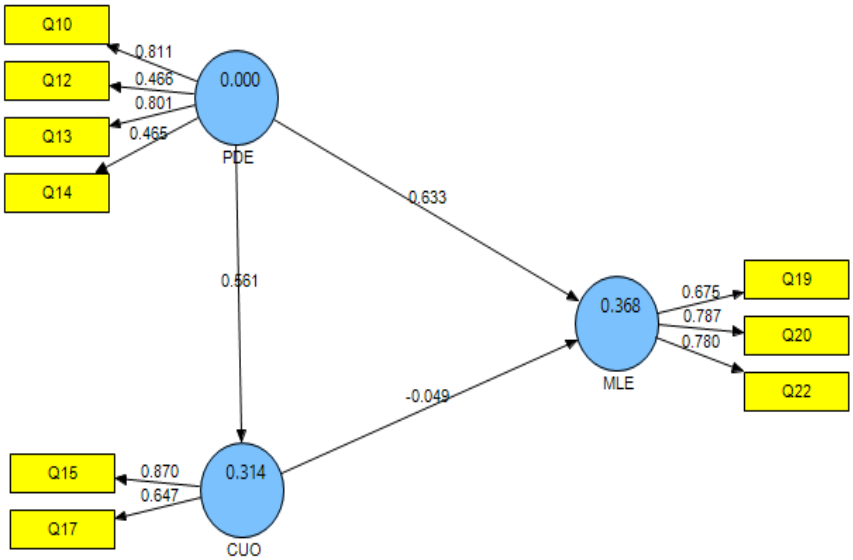


Figure 1: Fitted Structural Equation Model of Pro-decentralization

The results in figure 1 show the relationship between the inner model's constructs as well as the relationships between the observed variables, or indicators and constructs. The circles represent the constructs while the rectangles represent the observed or manifest variables used in the construction of the model (Ofeh and Thalut, 2018). The circles represent the constructs, and the

values inside the circles are the estimates of the squared multiple correlations (R^2) for each dependent construct in the model. Management of local enterprises is an endogenous model in the study while corruption orientation is an endogenous repressor or the mediator while pro decentralization is an exogenous variable. In figure 1, we have both the inner and outer models.
The inner model is called structural model; it shows the relationship between the constructs. The relationship between the constructs is captured using the regression coefficients while the relationship between the constructs and its indicators is captured using factor loadings. There is only one type of outer model in this study, which is reflexive in nature. For reflexive measurement models the arrow move from the construct to the manifest or observed variables. The question items used as manifest of the constructs were valid and reliable. The factor loading for the entire construct was well above the cut-off criteria of 0.5 as suggested by (Ofeh and Thalut, 2018). We proceed to present the bootstrapping results since they permit us to evaluate whether the hypothesized linkages between the constructs are significant.

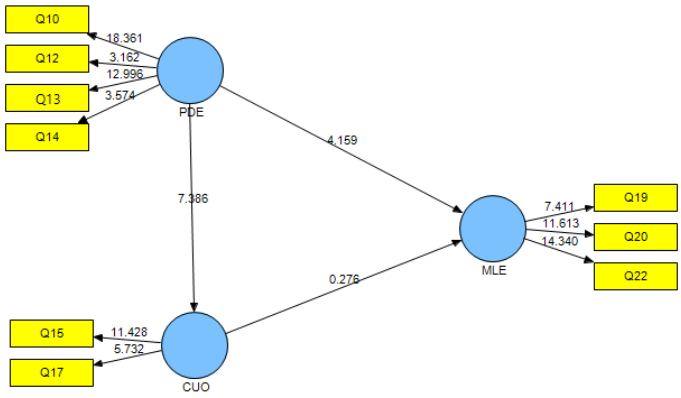


Figure 2: Bootstrapping Results of the Pro-Decentralization Model

The results of the bootstrapping model show significant and positive relationships between pro decentralization, corruption orientation and management of local enterprises. The results equally revealed negative and insignificant relationships between corruption and management of local enterprises.

Table 5: Results of the Outer Model Loadings

Hypothesized Linkage	Coefficient	Standard Error (STERR)	T Statistics (|O/STERR|)
CUO -> MLE	-0.049290	(0.168351)	[0.292780]
PDE -> CUO	0.560697*	(0.073952)	[7.581902]
PDE -> MLE	0.632690*	(0.140520)	[4.502507]

Notes: *The value in parentheses are the standard errors, values in brace are the T- Statistic values. * indicates significant at 1 % significance level*.

The results show that pro decentralization has a positive and significant effect on perceived management of the local enterprises and corruption orientation. In other words, if pro-decentralization goes up by 1%, perceived management of the local enterprises and corruption orientation goes up by 63.2% and 56% respectively. This implies that decentralization will make

the local people to become more cautious about corruption, and as such the local authorities will try their best to satisfy the need of its citizens.

CONCLUSION AND RECOMMENDATIONS

The main objective of the study was to investigate the effect of pro-decentralization on local management of enterprises in Bamenda III municipality, of the North West region of Cameroon. The results were subjected to maximum likelihood estimation technique of structural equation model. The results obtained show strong evidence of internal consistency between the constructs as well as strong evidence of both convergent and discriminant validity. The results of empirical analysis revealed that pro-decentralization has a significant positive effect on the management of local enterprises and corruption orientation. Corruption orientation has a negative influence on the management of local enterprises, though it was not found to be significant. The findings indicated that a unit increase in pro-decentralization has the tendency to improve the management of local enterprises to the tune of 63%. From the findings evidences are that transfer of powers and competencies from public authorities to the local communities around the territory will result to better management of local enterprises. The study therefore recommends that policies of decentralization should be corruption free and should be directed towards enhancing service quality of local enterprises.

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Conflict Of Interest

The authors declare no conflict of interest.

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APPENDIX

Questionnaire

Dear Participants,

We are undertaking a study on ‘‘pro-decentralization, corruption orientation and management of local enterprises in Bamenda III Municipality.”

General Instructions

a. All Individual responses to this questionnaire will be kept STRICTLY CONFIDENTIAL.

b. Kindly read the statements carefully.

Thank you very much for your time and cooperation. I greatly appreciate your efforts and help in furthering this research endeavour.

1. **Section A: Demographic and Socio-Economic Profiles of Respondents. Please tell us a little about you and your company.** ***(place a tick (√) on the appropriate box where necessary)***

SN	Socio-Demographic Characteristics	Response Options	code
A001	Gender of respondent	□ Male □ Female	
A002	Religion	□ Catholic □ Baptist □ Presbyterian □ Muslims □ Atheist □ Pagan □ Others	
A003	Level of Education	□ Primary □ Secondary □ Tertiary □ No formal Education	
A004	Households source of income	□ Earnings on farming □ Earnings on commercial Activity □ Earning on entrepreneurship □ Salary earner □ Others ……..	
A005	Number of person in the house	……	
A006	Marital status of respondents	□ Single □ Monogamy married □ Polygamy married □ Widow □ Divorce/Separation	
A007	Do you have a voter’s card?	□ Yes □ No	
A008	Local management of enterprises in Bamenda III can be better handled through transfer of power to the local authorities?	□ Yes □ No	
A009	What’s your age in years?	----------	

Section B: Questions here are based on the concept of Pro-decentralization. (***They are five Likert scale response options to each question; please select only one of the options. Notes: There is no wrong response***.) The responses options are; Strongly Disagree (SD), Disagree (D), Neutral (N), Agree (A), and Strongly Agree (SA). *Place a tick (√) on the appropriate box where necessary.*

S/N	Items on Pro-decentralization	Strongly Disagree (SD)	Disagree (D)	Neutral (N)	Agree (A)	Strongly Agree (SA)
Q10	There is gained in transferring authority and competences to the local institutions.					
Q11	Decentralization will result to efficient allocation of scarce resources.					
Q12	Pro decentralization will permit authority to better understand the need of its people.					
Q13	Decentralization ensures service deliveries, development of local businesses, control rights in governance.					
Q14	Decentralization has the tendency to improve on the welfare of the local community.					

Section C: Questions here are based on the concept of Corruption Orientation. (***They are five Likert scale response options to each question; please select only one of the options. Notes: There is no wrong response***.) The responses options are; Strongly Disagree (SD), Disagree (D), Neutral (N), Agree (A), and Strongly Agree (SA). *Place a tick (√) on the appropriate box where necessary.*

SN	Items on Corruption Orientation	Strongly Disagree (SD)	Disagree (D)	Neutral (N)	Agree (A)	Strongly Agree (SA)
Q15	Lack of accountability is detrimental to the welfare of the local community.					
Q16	Poor management of local enterprises can be attributed to corruption.					
Q17	The local communities are not given the right information to make business decision.					
Q18	Lack of active involvement of the local in the management of states affair is considered as corrupts practices.					

Section D: Questions here are based on the concept of Management of Local Enterprises. (***They are five Likert scale response options to each question; please select only one of the options. Notes: There is no wrong response***.) The responses options are; Strongly Disagree (SD), Disagree (D), Neutral (N), Agree (A), and Strongly Agree (SA). *Place a tick (√) on the appropriate box where necessary.*

SN	**Items on Management of Local Enterprises**	Strongly Disagree (SD)	Disagree (D)	Neutral (N)	Agree (A)	Strongly Agree (SA)
Q19	Management of enterprises can be enhancing through the process of decentralization.					

Q20	Shift of public resources from central government to municipalities will lead to quality improvement in social enterprises.					
Q21	Local authorities use more information about households in allocating program benefits.					
Q22	Local authorities' involvement in the management of public enterprises will satisfied the need of its citizen easily.					

Thank You.