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# The Influence of Organisational Characteristics on Governance Performance: A Study on the Malaysian Cooperative

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**Abstract:** This study aims to understand the internal issues and problems faced by cooperatives that affect the performance of cooperatives in Malaysia. This study aims to determine whether the factors of cooperative resource management, the focus of cooperative employees, and the focus of cooperative stakeholders affect the performance of cooperative governance. This study uses a structured questionnaire method. The respondents comprised a cooperative board member, a senior management staff member, and a cooperative member. The analysis found no significant relationship between cooperative resource management and cooperative employee focus with cooperative governance performance. However, the study's results found that only the focus of cooperative stakeholders has a significant positive relationship with cooperative governance performance. The limitation of the study is that the study only focuses on large cluster cooperatives. Therefore, the findings of this study describe the governance system in large cluster cooperatives only. Comparison with the study's conclusions on cooperatives of various clusters cannot be done. Future research can be done by considering cooperatives of different cluster sizes. In addition, other independent variables can be added to the study model. This study has developed a cooperative governance performance model based on core values that the cooperative can use, especially as a guide in obtaining excellent cooperative governance.

**Keywords:** Cooperative Governance, Organisational Characteristics, Cooperative Sector, Malaysia

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## 1. INTRODUCTION

Statistics presented at the Cooperative International Summit held in early 2014 revealed that the global income contributed by the cooperative sector has increased by 11.6 percent, which is USD2.2 trillion in 2012 compared to 2011, and has provided employment opportunities to 250 million people worldwide (OCDC, 2014). The large contribution of these cooperatives is generated from the 300 best cooperatives around the world represented by 26 countries involved in insurance activities (46%), agriculture and food (27%), and wholesale and retail trade (20%) and further placing the cooperative sector as the seventh largest contributor to the world economy (OCDC, 2014).

In developing countries, the cooperative sector is one of the main contributors to the economy which is an essential element in realizing the Millennium Development Goals (MDGs) in 2015 (Birchall, 2004). According to Birchall (2004), cooperatives have the characteristics to reduce the poverty level of their members, which is one of the important elements in achieving the MDG target. The cooperative sector also contributes to sustainable development, one of the five pillars in the International Cooperative Alliance (ICA) Action Plan due to the role of cooperatives as contributors to the economy and society by 2020 (ILO & ICA, 2014).

In Malaysia, the government has focused in the Eleventh Malaysia Plan (11MP) so that the cooperative sector can become the third largest contributor to the country's economic development after the public and private sectors (SKM, 2016). In addition, the Cooperative Sector Economic Report in 2015 reported that 12,769 cooperatives were registered with Suruhanjaya Koperasi Malaysia (SKM) with a membership of 7.49 million people. This registered cooperative has contributed total assets of MYR123.27 billion and revenue of MYR33.56 billion to the cooperative movement in Malaysia (SKM, 2016). Therefore, the cooperative sector has become an important contributor to the country's economic growth and impacts the Malaysian community's standard of living.

### 1.1 Problem Statement

The study of Maslinawati et al. (2013) also revealed that the phenomenon of misbehavior, abuse of power, and malpractice occurs in cooperatives due to poor governance, lack of management talent, lack of integrity among management and cooperative members, and the inefficiency of cooperative management. Although past studies have explained the internal problems, especially in terms of governance faced by cooperative organizations (Gorton & Schmid, 1999; Cornforth, 2004; Surroca, García-Cestona, & Santamaria, 2006; Pozzobon & Filho, 2007; Birchall, 2014), it is still difficult to find studies that identify factors that can explain cooperative governance. As an example, Birchall's (2014) study only reveals the governance problems faced by cooperatives but focuses less on the factors that can explain the phenomenon of cooperative governance that occurs. Although it is possible that the factors explained in the study can be used for cooperative organizations, there are many more factors that have not been explored.

In order to achieve the goal of establishing a cooperative, all issues and weaknesses that hinder the success of the cooperative need to be addressed so that it can move more efficiently and effectively (SKM, 2012). Based on National Cooperative Policy (NCP) 2011-2020, one of the performance indicators of cooperatives is good governance. This means that the performance of cooperatives assessed through Gross Domestic Product (GDP) contribution can be increased if the performance of good cooperative governance also

increases. With that, the performance level of cooperative governance in Malaysia must first be determined to unravel the phenomenon and issue of failure of cooperative governance that is much debated.

In addition, the factors that affect the performance of cooperative governance should also be determined. Previous studies have discussed many factors that can affect organizational performance, whether it is a company organization or a public organization (Nooreha, Mokhtar, Fazli, & Ridzuan, 2001; Fazli, Mokhtar, Mohd Ashari, & Nooreha, 2003; Ho, 2008; Sole, 2009; Fotopoulos & Psomas, 2010; Eljelly & Elobeed, 2013; Valmohammadi & Ahmadi, 2015). Even so, the results of the literature research show that research related to the factors that affect the cooperative's performance or the cooperative governance performance is very difficult. Thus, this study tries to find performance studies that are close to cooperatives, where studies related to factors that affect the company performance or public organizations are used as a guide. The determination of these factors is carefully scrutinized since the performance of a company or public organization is not the same as the performance of a cooperative organization.

## **1.2 Research Questions and Objectives**

Based on the discussion above, the research questions for this study are as follows :

1. Is there a relationship between cooperative resource management and cooperative governance performance?
2. Is there a relationship between cooperative employee focus and cooperative governance performance?
3. Is there a relationship between cooperative stakeholder focus and cooperative governance performance?

This study aims to obtain a comprehensive explanation of the issue of the effect of organizational internal factors on the performance of cooperative governance in Malaysia. In particular, the objectives of this study are as follows :

1. To determine whether the factor of cooperative resource management affects cooperative governance performance.
2. To determine whether the factor of cooperative employee focus affects the cooperative governance performance.
3. To determine whether the factor of cooperative stakeholder focus affects the cooperative governance performance.

## **2. LITERATURE REVIEW**

Cooperative governance is very important in upholding organizational integrity and preserving the cooperative's identity (Intan Waheedah et al., 2013). Like corporate governance that uses the Malaysian Corporate Governance Code 2012 (MCCG 2012) as a good corporate governance guide, cooperatives are also encouraged to refer to the governance handbook issued by the Malaysian Cooperative Development Department (JPKM). The purpose is for cooperatives to have an efficient, effective, and transparent level of governance to guarantee the continuous development of the cooperative movement.

Even so, issues regarding cooperative governance arise due to some critical weaknesses, such as indifference and management inefficiency by cooperative members (Azmah & Fatimah, 2008). In addition, the Economic Report of the Cooperative Sector in 2010 also reported that cooperative board members had failed to separate the duties of policymakers and administrators due to the board losing focus and not giving priority to cooperative strategic planning. The board has also taken the opportunity to use their position to intervene in investment activities such as get-rich-quick schemes. Thus, this phenomenon will affect the performance of cooperatives in the long term and cause the governance of cooperatives to become worse (Intan Waheedah et al., 2013). According to the SKM annual report (SKM, 2014), the governance problem experienced is more about misconduct among members of the cooperative's board. This can be seen through the number of complaints received by SKM each year. As an example, for the year 2013, a total of 407 complaints were received related to misconduct in cooperatives (SKM, 2014).

In line with that, various activities have been carried out by SKM to improve the integrity of cooperatives, such as collaborating with the Maktab Kerjasama Malaysia (MKM) to implement 23 courses related to Integrity in Cooperatives and Cooperative Governance which have been attended by 1,757 participants (SKM, 2014). Zelhuda et al. (2014) explained that good governance is needed to reduce agency problems and can help various parties in the cooperative movement either in terms of administration or community management, which in turn affects the development and performance of cooperatives. In order to strengthen cooperative governance, SKM has issued guidelines to fulfill statutory obligations, speed up and simplify the service delivery system and streamline the preparation of legal documents (SKM, 2014). Even so, implementing these activities still cannot solve the problem in cooperatives governance when there are cases of misconduct, abuse of power and irregularities that occur among members of the cooperative's board every year. Punitive action is not given priority in this regard but rather a preventive approach to ensure that the cooperative movement is at a higher level of integrity (SKM, 2014).

### **3. RESEARCH METHODOLOGY**

The research framework is formed using Resource-Based Theory (RBT) as the basic theory in explaining the relationship between the variables studied and the performance of cooperative governance. RBT theory is used in this study to explain the resources that can influence organizational performance either by using existing resources or developing other firm resources to implement strategies in achieving competitive advantage. Therefore, the research model based on RBT can effectively explain the resources that can influence the cooperative governance performance.

The population of this study consists of individuals involved in cooperative organizations where information and perceptions of governance in a cooperative need to be collected. According to SKM statistics, the number of cooperatives located in Peninsular Malaysia for the year ended 2014 was 9,804. However, there are two cooperatives that are cooperatives in the banking sector where this sector has special rules for its financial reports issued by the National Bank and are not subject to the Cooperatives Act 1993. Therefore, both were removed from the list making the total number of cooperatives as much as 9,802. All these cooperatives are classified into four clusters which are large, medium, small and micro clusters which classification is based on the total annual sales

of the cooperative which also represents the level of performance of the cooperative movement in Malaysia.

According to Sekaran & Bougie (2013), sampling needs to be done from the entire population due to time, cost and human resource constraints. A sample is a subgroup of the entire study population. In addition, sampling was done to gain an understanding of the research problem and the main phenomenon of the study (Creswell, 2007). Based on the issue of this study, which is the performance of cooperative governance, then, a purposive sampling method was performed. Purposive sampling is a method that selects a group of subjects with certain characteristics who are selected as research respondents based on the researcher's knowledge and specific research objectives (Sekaran & Bougie, 2013).

The study sample focuses on individuals from large cluster cooperatives, which are as many as 170 cooperatives. Based on SKM's statistical report for the year ending 2014, large cluster cooperatives contributed 94.20% of the total revenue of the cooperative movement. This shows that large cluster cooperatives are the main and largest contributors to the total revenue of the cooperative movement in Malaysia and subsequently affect the performance of the cooperative movement as a whole. Therefore, only large cluster cooperatives are expected to have senior management compared to other clusters since this study requires a cooperative manager as one of the respondents to answer the questionnaire.

This study uses the data collection method through primary sources, which is structured questionnaires. The questions that are arranged are in the form of statements. This method is suitable because the respondents are many and scattered throughout the states in Peninsular Malaysia. A total of three completed questionnaires were sent to each large cluster cooperative by post with a self-addressed (stamped) reply envelope for return. However, phone calls and personal visits are conducted by the researcher if the study sample size is still insufficient.

The sample size set is as many as 170 cooperatives consisting of large cluster cooperatives. The questionnaire was sent together with a cover letter stating the purpose of the data collection and asking the respondents to answer the questions freely and without prejudice. The parties who should answer the questionnaire, namely, cooperative board members, senior management staff and cooperative members. The researcher has also contacted the cooperative by phone and email to explain in more detail who should be involved in answering the distributed questionnaire.

A total of 30 cooperatives were used for the pilot survey. This means that the number of large cluster cooperatives involved in the actual study is as many as 140 cooperatives. Therefore, the total sample for this study is 420 respondents (140 cooperatives x 3 respondents) consisting of cooperative board members, senior management staff, and cooperative members who need to answer the questionnaire. As a result, a total of 144 questionnaires were successfully collected. After performing a screening analysis, six questionnaires were found to have a dubious response pattern (straight lining), and 37 questionnaires were outliers. Finally, only 101 questionnaires could be used for analysis purposes. This questionnaire is sufficient for the purpose of analysis using PLS-SEM, where the minimum sample size required is ten times the maximum number of arrows pointing towards any latent variable in the PLS trajectory model (Hair, Jr. et al., 2014). This study developed three hypotheses to answer the research questions stated in section

1.2 above. The list of research hypotheses that have been developed is shown in Table 1.

Table 1. List of Proposed Research Hypotheses

H <sub>1</sub> :	Cooperative resource management has a significant relationship with cooperative governance performance.
H <sub>2</sub> :	Cooperative employee focus has a significant relationship with cooperative governance performance.
H <sub>3</sub> :	Cooperative stakeholders focus has a significant relationship with cooperative governance performance.

#### 4. RESULT

Overall, three hypotheses were tested in this study. The results of the study found that the three hypotheses tested have a direct relationship between the study constructs. H1, H2, H3 shows a positive relationship. However, only one of the three hypotheses, namely H3, was found to have a significant relationship with cooperative governance performance. Table 2 below summarizes the results of the study.

Table 2. Summary of Research Hypothesis Results

H <sub>1</sub>	Cooperative resource management affects the cooperative governance performance.	Not Supported
H <sub>2</sub>	Cooperative employee focus affects the cooperative governance performance.	Not Supported
H <sub>3</sub>	Cooperative stakeholders focus affects cooperative governance performance.	Supported

##### 4.1 Relationship between Cooperative Resource Management and Cooperative Governance Performance

In this study, the results were different from what was expected. The results found that there is a non-significant relationship between cooperative resource management and cooperative governance performance. The results of this study are different from the results obtained by previous studies, as reported by Chew & Sharma (2005), Lo & Abang Azlan (2009), Intan et al. (2011), and Mei et al. (2013). However, the results of this study are in line with the findings of the study by Chan et al. (2004), Chang & Huang (2005) and Vivares-Vergara et al. (2016). As an example, a study by Chang & Huang (2005) found that the results failed to find a direct effect between human resource management and organizational performance. The relationship between human resource management and organizational performance is only significant if there is a moderate variable between the two variables.

Therefore, what are the possibilities that contribute to the rejection of the hypothesis built in this study? Effective resource management involves three types of resources namely human, financial and assets. However, for the cooperative sector in Malaysia, SKM only focuses on financial management rather than human and asset management based on its annual report. Effective financial management is crucial for enhancing the financial stability of cooperatives, especially in terms of increasing total assets, share capital and fees as well as earnings which will contribute to the growth of the national economy (SKM, 2016). In addition, financial management is emphasized over asset and human management, possibly because the risk of misconduct and abuse of power related to

financial resources in cooperative organizations is high. Therefore, SKM focuses primarily on financial management, as it believes that an outstanding organization is one that effectively and efficiently plans and manages its financial resources. So, this possibility is what causes resource management to be found not significant with the performance of cooperative governance.

#### **4.2 Relationship between Cooperative Employees Focus and the Cooperative Governance Performance**

The study's results also found that the factor of cooperative employees' focus has a non-significant relationship with cooperative governance performance. The results of this study rejected the hypothesis formed. Employees are an essential element responsible for carrying out the tasks and affairs of the administration and management of the cooperative. However, in this study, employee focus factors that are expected to have a significant positive relationship with cooperative governance performance were found not to support the formed hypothesis. This finding is not in line with the results of previous studies in various fields of study, such as a study by Antonacopoulou (2000), Lee & Bruvold (2003), Hameed & Waheed (2011) and Elnaga & Imran (2013), who reported a significant relationship between employees and organizational performance. The explanation for the potential lack of a substantial relationship is that previous studies have predominantly focused on financial performance as a measure of organizational performance, unlike this study, which focuses on non-financial performance, which is cooperative governance performance. Therefore, the research findings obtained cannot be accurately compared to previous studies.

However, the explanation for the findings of this study, which revealed a non-significant relationship between employee focus and cooperative governance performance, is that employees primarily act as implementers of activities conducted by the cooperative. If the upper management does not give the employee attention, this will not affect the task or activity that has been instructed. Regular employees have to perform the assigned routine tasks without affecting the course of the cooperative's governance. In addition, the role of cooperative board members is seen to be greater and is the determinant of all activities that will be carried out compared to employees who only receive instructions from upper management to launch activities that cooperative board members have planned.

#### **4.3 Relationship between Cooperative Stakeholder Focus and Cooperative Governance Performance**

The study results found that the factor of cooperative stakeholders' focus has a significant positive relationship with cooperative governance performance, as expected, and supports the hypothesis that has been formed. Previous studies also reported a significant relationship between stakeholders and governance (Hill & Jones, 1992; Gray et al., 1997; Ektor, 2010; Asyraf Wajdi, 2011). The results of this study show that the higher the focus given to stakeholders, the higher the performance of cooperative governance. The results of the study found the core values, as suggested by Mokhtar et al. (2012), that need to exist for stakeholders to help improve the performance of cooperative governance are respect, non-discrimination, mutual benefit, responsiveness, social responsibility, and interdependence. These values can also be the basis for establishing a good relationship with stakeholders and help the cooperative have good governance.

The significant relationship between cooperative stakeholder focus and governance performance is evidenced by the stakeholders' interest in the survival and success of cooperatives in the long term. As an example, the participation of stakeholders in cooperatives is a way to reduce costs and the need to obtain information through the market about business opportunities or activities that can be carried out to further develop the cooperative sector. This means that the management of the cooperative does not need to hire or use the services of consultants or experts to obtain information related to potential activities to be carried out. Therefore, if attention to stakeholder participation is emphasized by the cooperative, this will create advantages in cooperative governance and further improve the cooperative's performance as a whole.

## **5. CONCLUSION**

Based on the test results, the study successfully achieved its three objectives: to determine whether cooperative resource management, cooperative employee focus, and cooperative stakeholder focus influence the performance of cooperative governance in Malaysia. The research results obtained are reliable, with the research process carried out based on scientific methods.

The results of this study contribute to the literature when it has confirmed a significant relationship between the factor of cooperative stakeholders' focus and the performance of cooperative governance, while the factors of cooperative resource management and the cooperative employees' focus do not have a significant relationship with the cooperative governance performance. In terms of addition to the literature, the results of this study show that Resource-Based Theory (RBT) is able to explain the relationship between the independent variable and the dependent variable of the study.

In addition, the results of this study can be used as a guide for SKM to improve the existing cooperative governance principles further. Improved cooperative governance principles may further improve the regulatory and cooperative governance performance. Improving achievement in regulatory performance and good governance is one of the objectives of the NCP 2011-2020 drawn up by SKM and Kementerian Perdagangan Dalam Negeri, Koperasi dan Kepenggunaan (KPDNKK) to increase the contribution to the country's GDP.

## **6. LIMITATION AND RECOMMENDATION FOR FUTURE RESEARCH**

The study conducted only focused on large cluster cooperatives. Therefore, comparing the study results with cooperatives of various clusters cannot be done. Given the lack of empirical studies conducted on the study sample to study the factors that influence the cooperative's governance performance in the Malaysian context, a comparison with the results of previous studies cannot be made. Therefore, explaining the relationship between the variables tested cannot be justified more effectively.

Future studies can determine other factors as independent variables in the study model. A study that uses the same conceptual framework but targets all types of cooperative clusters in Malaysia needs to be conducted. A comprehensive study needs to be conducted so that the understanding related to the phenomenon of cooperative governance in Malaysia can be clearly known.

This study used a questionnaire method to collect data on the performance of cooperative governance in Malaysia. Therefore, in the future, it is hoped that more detailed studies,



such as using secondary or qualitative data and case studies, can be conducted. This can also support and strengthen the findings of this study.

This study only measured cooperative performance by looking at non-financial factors, namely cooperative governance. Therefore, future studies can focus on cooperative financial factors. By testing both elements, it is hoped that the factors expected to influence cooperative performance can be further strengthened and confirmed.

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