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Accountability Issues and Challenges: The Scenario for Malaysian Cooperative Movement

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***Abstract*—**This paper discusses the issues and challenges concerning the issues of accountability and regulation systems of cooperative movement in Malaysia.

***Keywords*—**Cooperative movement, compliance, transparency, issues.

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I. Introduction

ACCOUNTABILITY is regarded as a key requirement for successful feedback systems and good governance in any organisations including cooperative organisations. Accountability comprises of two core components which are transparency and compliance. To instill good transparency and compliance, timely available and reliable information will be seen as highly crucial in ensuring effective regulation and monitoring cooperative by the government, members and donors. Information asymmetries may arise due to lack of transparency and compliance. This in turn, results to the decrease in the ability of government, members and other stakeholders to monitor and regulate cooperative movements.

Unlike public listed corporations, the Malaysian cooperative movements have no obligations to disclose their financial reports to the public, but somehow the obligation still exists for cooperatives to disclose information to the members of cooperative movements. Publicly available information of cooperative organisations is important because non-accessibility may result in the loss of public confidence.

Cooperative is an enterprise that is owned and democratically controlled by its members. Cooperatives are accountable to its members, government and donors. Reference [1] defines accountability as the mean by which individuals and organizations report to a recognized authority and held responsible for their actions. There are issues and challenges that may hinder cooperatives in enhancing its accountability. Malaysian cooperative movements faced many problems and challenges that need to be addressed by the cooperative themselves and the government. For many years, issues such as lack of capital, weak governance structure, absence of good governance, lack of managerial talent, lack of integrity among the management and the members in some cooperatives, are contributing to the inefficient performance of cooperatives in Malaysia. Hence, may affect the ability of cooperative to maintain certain level of accountability. Many steps have been taken by the Malaysia government to improve the oversight role and support the cooperative movement.

This paper is organized as follows. Section II is the development and the status of the cooperative movements in Malaysia. Section III explains the accountability of cooperatives in Malaysia. Issues and challenges related to cooperative movement in Malaysia will be discussed in Section IV. Section V is the discussion and conclusions.

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II. The Development and Cooperatives Status in Malaysia

Cooperative is defined as an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise [2]. Other literatures also defined cooperative as a business that is owned and controlled by the people who use its services or by the people who work there.

Cooperative started off as a rural, small-sized business movement that provided most of basic services. However, as a result of the local government transformation plan, cooperatives have now turned into an efficient business. Since it was firstly introduced ninety one years ago, cooperative movement had such a great impact on the Malaysian economic development. This can be seen from the current trend, where the performance of cooperative movement has shown positive growth from year to year. Report has shown that for theperiod 2005 to 2009, the number of cooperatives have increased at an average rate of 9.4 percent per annum, members composition grew at 4.7 percent, share capital rose by 8.2 percent, assets increase by 20.8 percent and returns by 17.0 percent per annum [3]. In June 2011 only, about 110 cooperatives out of 8,606 registered that year have been classified as the big cluster due to the returns received from their businesses reached almost RM5million per year. These indicate that cooperatives received great support from the public and also involve in activities that contribute to economic growth.

The increase in numbers has led the government to actively plan for the cooperative movement in Malaysia. One great plan was implemented in July 2010, where the Malaysia Prime Minister has launched the 2011-2020 National Cooperative Policy (NCP). The NCP 2011-2020 is established with the focus on directing and stimulting the growth of cooperative revenue on a long term basis. It details the steps towards

developing Malaysia into becoming a developed and high-income country by 2020 [4]. It has been centred on the concept of 1Malaysia: People First, Performance Now, the Government Transformation Programme (GTP), the Economic Transformation Plan (ETP), the National Key Economic Areas (NKEA), the New Economic Model (NEM) and the Tenth Malaysia Plan (RMK-10). By this it would mean that cooperative will become the main engine in driving towards the country's social and economic goal attainment. Continuous commitment given by the government to cooperative development is a reflection of confidence in cooperative movement in Malaysia.

Cooperatives in Malaysia are classified into nine different functions based on the nature of business activities. These functions include banking, credit / finance, agriculture / plantation, housing, industry, consumers, construction / development, transport and services.

TABLE I
STATUS OF COOPERATIVE BY FUNCTION AS AT 31 DECEMBER 2010

No	Function	Number of Cooperative	Number of Members	Number of capital share/fees (RM)	Number of asset (RM)	Acquisition (RM)
1	Banking	2	813,554	2,362,445,404	56,733,242,511	4,922,574,029
2	Credit	613	1,786,508	4,507,384,712	8,119,078,033	1,326,810,294
3	Agriculture	1,441	429,559	388,615,588	1,479,849,950	600,463,067
4	Housing	118	145,823	162,412,315	666,365,426	49,081,726
5	Industry	137	14,467	5,017,038	51,177,619	32,643,171
6	User-Adult	1,731	501,765	212,530,614	742,374,930	526,490,488
	-School	2,135	2,086,950	18,916,728	200,198,773	236,994,964
7	Development	134	38,007	12,659,831	55,201,793	48,805,937
8	Transport	429	145,193	57,751,635	270,501,095	562,355,156
9	Services	1,406	638,215	1,819,434,092	3,466,697,627	1,226,882,588
	Total	**8,146**	**6,600,041**	**9,547,167,957**	**71,784,687,756**	**9,533,101,420**

Sources: Monitoring Division, Department of Co-operative Development, Kuala Lumpur

Status of performance by functions of cooperatives in Malaysia can be seen from Table I. Based on the figures shown in Table I, a huge percentage comprises of consumer-based co-operatives (47.5%), service-based cooperatives (17.3%) and credit-based cooperatives (7.5%). It is also indicated that cooperative activities in the financial services remained to be a significant contributor to the total revenue of the cooperative movement as a whole, although it is represented by only two co-operative banks, i.e. Bank Rakyat and Bank Persatuan. Further, it is evidenced from the current status of the number, membership, capital and assets shown in Table I that cooperatives have actually received a huge support from the public and had performed and contributed significantly towards the country's economic growth.

Despite the outstanding performance, the Malaysian cooperative movements have long been associated with scandalous history of mismanagement, criminal breach of trust and fraud. As such, the issue of accountability appears important in ensuring that the conduct of cooperative is carried out with effectiveness and high integrity.

III. ACCOUNTABILITY OF COOPERATIVE MOVEMENT IN MALAYSIA

A. The Core Component of Accountability

According to [5] and [6], the core components of accountability are transparency and compliance. Transparency involves collecting information and making it available and accessible for public scrutiny. It requires providing clear reasoning for any actions and decisions, including those which are not adopted, so that they may reasonably be questioned later. Specifically, transparency is defined as the timely availability of firm-specific information to those outside the firms [7]. As for [8], transparency is defined as the widespread availability of relevant, reliable information about the periodic performance, financial position, investment opportunities, governance, value and risk of firms.

The social demand of transparency in cooperative organisations has increased. This arises due to the social and economic impact and the incidences of fraudulent behavior by some international as well as local cooperative managers. Essentially, cooperative organisations are operated on the same basis as corporate organisations, except for cooperatives do not issue shares, but their existence are still based on principal-agent concept. Due to this fact, members of cooperative, acting as the agent, are prone to be involved in activities that have conflicting interest with the principal, i.e. the cooperative board members. As such, the spate of corporate collapses highlighted the importance of cooperative to be accountable, and this would mean being completely transparent because full disclosure about own activities will enhance public trust [9].

In the context of transparency, reporting alone is insufficient as there must be some other access to the information [10]. [11] contended that NGOs (which include cooperatives) have the moral obligation to act in the public interest. They are also made accountable for what they say, the values they promote and the positions they take on particular issues. "It is what it does, and not representation, that makes an NGO legitimate" [9].

Compliance, on the other hand, can be achieved through the monitoring and evaluation of procedures and outcomes, combined with transparency in reporting those findings. Issues on compliance arise due to the weak structure and the absence of good governance in some cooperatives. In light of this matter, the present Cooperative Societies Act 1993 has being

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reviewed and several provisions were added to increase supervision, monitoring and enforcement against existing cooperatives [12]. Further, better management of intellectual and human capital assets that exist in the movement cooperative may result in more enhanced compliance and better regulation of cooperative operations [12].

Internal audit committee is one important determinant of good cooperative compliance. According to the Cooperative Societies Act 1993, an Internal Audit Committee shall consist of not less than three and not more than six members and appointed at the annual general meeting. Some of the functions of the Internal Audit Committee include examining all accounting and other records, validating all expenditures within the limit of their authority, and communicating to the Board any discrepancies that may occur in the management. They also have to attend the annual general meeting and present reports on the management and affairs of the cooperatives. Notwithstanding, the Internal Audit Committee has to review and examine the accounting records at regular intervals not less than once in every three months. In the case where they fail to examine the accounting records, they may appoint competent persons to examine such accounts.

B. Financial Reporting Legislation of Cooperative in Malaysia

In Malaysia, financial reporting requirement of cooperative movement is governed by the Cooperative Societies Act 1993 (Amended) (Act 502). According to the Act, under section 58(3), every cooperative society should prepare its trading and profit and loss accounts and balance sheet together with any other document required not less than two months after the completion of each financial year for the purpose of audit. Those documents should be kept at the registered office and should be available at all times for inspection by the Registrar General. Furthermore, under Section 59 (1) and (2), every cooperative society should lay at its annual general meeting at least once in every calendar year, its (i) trading and profit and loss accounts; (ii) a statement of sources and application of funds; (iii) a balance sheet; (iv) a report signed by or on behalf of the Board with respect to the state of affairs; (v) the auditor's report; and (vi) the observations of the Registrar General. In addition to the documents as mentioned above, the society should also submit those audited documents to its members not less than fifteen days and also to the Registrar General not less than thirty days before the annual general meeting. The Act under section 60 (1) stipulates that these documents should be audited at least once a year in every financial year by some person approved by the Registrar General.

Regulation 2010, section 31 (2), highlighted that a complete list of items of expenditure of the Board and payment to any individual members of the Board should be included in the notes to the profit and loss account of the cooperative societies. On the other hand, Section 58 of the Act under the Regulation 2010 specifies that cooperative movement should prepare the financial statements in the form as determined by the MCC. The standardized format is laid out in the GP: 23. This guideline aims to ensure the uniformity and harmonization among co-operative in presenting their financial statement to the users so that the preparation is in accordance with Co-operative Act 1993 (Act) and Co-operative Regulations. It provides the minimum requirements of financial statement format that need to be followed by cooperatives.

The Malaysia Accounting Standard Board (MASB) is responsible for the formulation and setting of the Malaysian accounting standards. With regard to this matter, MASB has actually issued two forms of accounting standards namely the Malaysian Financial Reporting Standards (MFRS) for public listed companies and the Private Entity Reporting Standards (PERS) for private companies. However, neither of the standards is made mandatory by the MCC for cooperative to apply in them preparing the cooperative financial reporting. However, the application of either one the accounting standards must be consistent and comprehensive. Note that the preparation of the financial statements of cooperative society is under the responsibility of the cooperative Board member.

Financial statements prepared by the cooperatives must then be audited to ensure a true and fair view of the information being reported. With regard to this, matters on the appointment of auditors for Malaysian cooperative movement are also legislated in the Act. Under the Regulation 2010, Section 29 (2), every cooperative movement should notify the MCC on any auditor appointment by submitting to the MCC a copy of the instrument of the appointment that covers the period of such appointment, the audit fees chargeable, the scope of audit and any other relevant matter. The financial statements of the cooperative movement should be audited within a period of fifteen days after the completion of its financial year ends. If they failed, the auditor shall report such matter to the MCC. The cooperative society should then keep all records for a period of six years after the date of completion of the audit.

IV. Issues and Challenges of Cooperatives in Malaysia

Cooperatives are formed with the idea of mutual co-operation. Every cooperative movement is developed to render service to its members rather than to earn profit. However,the Malaysian cooperative movement faced many problems and challenges that need to be addressed by the cooperative themselves and the government.For many years, issues such as lack of capital, undertaking of conventional activities, weak structure, absence of good governance, lack of cooperation between cooperatives in the field of business, training, education and facilitating services [12], lack of managerial talent, lack of integrity among the management and the members in some cooperatives, are contributing to the inefficient performance of cooperatives in Malaysia. However the main cause of those issues is due to lack of public's confidence that may affect the stability, growth and development of the cooperative movement. Explained below are some of the issues and challenges that hinder cooperatives from maintaining certain level of accountability.

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A. Lack of Capital

In the National Co-operative Policy (NCP) 2002-2010 the Ministry in charge of co-operatives had acknowledged that the majority of co-operatives are small in size and capital.Most co-operatives are dependent on the internal resources of capital which is the share capital, fee and accumulated profits. Due to that, many cooperatives are facing problem generating and getting sufficient capital to implement their activities. The effect of this shortcoming has led cooperative societies unable to produce reasonable returns to members.

Eventhough some cooperatives do have excess fund, these are not being utilized economically but are channeled to other non co-operative financial institutions [13]. In the long run these problems will hinder cooperative society performance and cooperative society will not be able to contribute to the economy. As of July 2006, it was announced that 9.8 percent of the 4,771 cooperatives were inactive and a total of 217 cooperatives were under liquidation. [14].

The issue of lack of capital can hinder the cooperative from maintaining a good level of accountability where the compliance to related regulations on financial reporting can be negected by cooperative societies if they are inactive and under liquidation process. This also may affect the monitoring and oversight duties of the cooperative movements by the MCC.

B. Absence of Good Corporate Governance and Weak Structure

Effective cooperative governance is important to promote accountability and transparency in cooperative. However, it was claimed in one interview with the Minister in the Ministry of Domestic Trade, Cooperatives and Consumerism, Datuk Seri Ismail Sabri Yaakob, that most of the Internal Audit Committees of cooperative in Malaysia that have been appointed by the members failed to exercise their duties, functions and responsibilities [15]. Furthermore, he added that members normally have more tendency of appointing famous or influential members to hold board position in their cooperatives. This will results in board members failed in carrying out their duties according to the best governance practices. The appointment should be based on members' experience and trustworthiness rather than their popularity. The failure of the Board has resulted in the Board losing focus and putting less priority on the strategic planning of the cooperatives. This is one of the weaknesses of cooperatives that led members of the Board to take advantage of their position in the cooperatives to meddle in illegal investment activities as characterized by dodgy quick-rich scheme [4]. Weak governance structure may result due to lack of accountability among the board members.

C. Lack of Managerial Talent

It can be seen that cooperative organisations do not function efficiently due to lack of managerial talent. The members of their elected representative are not experienced enough to manage the organisation. Because of limited capital they are not able to get professional management [16]. Furthermore, a large proportion of the cooperative societies are still being managed by boards on a voluntary basis and not by the full time professional managers as in the bigger and more successful cooperatives [17]. As a result of the absence of permanent employees or a professional management team in cooperatives, the governance and accountability of cooperatives have been affected to some extent. As an example, due to the inability to hire professional helps, the growth of small cooperatives will be badly affected [4].

In addition, the National Rubber Smallholders Co-operative (Narsco) is said to be in debt of more than RM20 million and is facing difficulties to meet its obligations. The chairman had blamed the mounting debts on the previous management's lack of accounting knowledge and questionable decisions.

Lack of management talent make it more difficult for cooperative to maintain certain level of accountability, as a result of inefficient administrative and poor financial management.

D. Lack of Integrity among the Management

According to the former Prime Minister of Malaysia, Tun Dr. Mahathir Mohamad, lack of integrity among the management and the members of cooperative organizations is the main reason for the cooperative organizations to fail [17]. The cooperative movement has had a long scandalous history of mismanagement, criminal breach of trust and fraud.

For example, Angkatan Koperasi Kebangsaan Malaysia (ANGKASA) has once been reported to be involved in hanky-panky activities. This umbrella cooperative of the country handles nearly RM7.3 billion a year through direct deduction of salaries for loan payments. According to its former President, the discovery of financial and administrative irregularities in the processing of loan applications and repayment deductions in ANGKASA were highlighted in the investigation report to SKM on 23 Oct and 18 Nov 2008. He laments the relative lack of enthusiastic response even though about RM20 million per day is involved [18]. He also accused some core members of the administrative committee of collecting total allowances amounting to between RM15,000 and RM25,000 per person during the period (from 24 March to 5 May 2008) when he was removed from office [18].

Another recent case involving the former deputy chairman of Koswip (Selangor and Federal Territory Government Officers Cooperative) and also on the Board of Koswip, was charged at the Sessions Court. He was charged of accepting bribes from a company that has a contract of supplying, developing and maintaining a portal and information system link for the cooperative which was a RM1.5 million [19].

All of the above mentioned issues have resulted in poor financial performance, mismanagement and non-compliance with the Cooperative Societies Act 1993. Due to that, Malaysian Government has continuously putting efforts to improve the cooperative movement.

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V. Government Efforts towards Improving the Cooperative Movement

A. 1Community 1 Cooperative programme (1K1K)

To enhance the new spirit and determination to raise the confidence of public, the 1 Community 1 Cooperative programme (1K1K) was launched by the Deputy Prime Minister in March 2010 in Selangor. The main objective of 1K1K programme is to encourage the establishment of cooperatives among the community and infuse the cooperative spirit in their daily lives [4]. The 1K1K programme is formulated to increase the number of cooperative and indirectly to foster unity among all races in Malaysia.

B. Positioning Knowledge Management

One of the main strategies to achieve the objective of the NCP is emphasizing the need for more professional help in the management of cooperatives. These were achieved partly through the professional assistance provided by the Malaysia Co-operative Societies Commission in ensuring that the skills, abilities and learning capacity of the cooperatives are put to good use [12].

Positioning knowledge management can enhance the way cooperatives operate. Leading management and organization theorists have popularized the concept of treating organizational knowledge as a valuable strategic asset [20]. Furthermore, [21] emphasized the significant factor of knowledge management in its relationship to organizational competence because the act of managing information has now become the most important economic tasks of individual business and nation. Knowledge management can be positioned in cooperatives by way of training ang education.

The effort to provide training and education to the cooperative movement in Malaysia is done by the Cooperative College of Malaysia (CCM). CCM is the one and only cooperative education institution in Malaysia. It was established in 1956. To date CCM has organized and conducted many seminars, workshop and short-term courses for cooperative societies. A major part of the CCM administrative funding is provided by the Cooperative Education Trust Fund Group which receives contributions from the Malaysian cooperatives. Beginning 1969, Malaysian cooperatives were compelled to provide 2% of their net profit to CCM.

With all of the efforts done by CCM, it will help the cooperative to improve the level of accountability of cooperative in discharging its responsibilities to its members and government.

C. Positioning Technical Assistance

The government has played an important role towards the formation, promotion and continued growth of cooperatives in Malaysia. Technical assistance in the form of seconding government officers to the cooperatives in the land development schemes under the Federal Land Development Authority (FELDA) to assist the cooperatives during their initial development stage were given [22]. The practice is still on until now. By the time the cooperatives are capable of managing themselves, the officers will then withdraw from their service. The practice can enhance the accountability of the cooperative in various aspects. It can assist cooperative societies understanding the need of complying with related regulations. Besides technical assistance, financial assistance was also given to facilitate cooperative growth.

D. Financial Assistance

It is a normal practice for the Malaysian government to give financial assistance to those cooperatives which do not qualify for normal bank loans. The Malaysia Government has since then allocated a substantial amount from the national budget for cooperative development. In strengthening the cooperative, the government also introduces financial assistance in the form of grants and soft grants. Besides that, a subsidy was also given to school cooperatives so as to enable them to employ workers to manage their business efficiently. However, the assistance extended tocooperatives did not necessarily mean immediateincrease in the annual turnover of the cooperatives. The financial assitance given means that the accountability of the cooperatives becomes wider. The cooperatives that have received such assiatance will need to properly manage the fund and indirectly will enhance the disipline in management of cooperative. Finally it can encourage the awareness of being accountable to what they have spent.

VI. Discussion and Conclusion

Malaysian cooperative movements faced many problems and challenges that need to be addressed by the cooperative themselves and the government. For many years, issues such as lack of capital, weak governance structure, absence of good governance, lack of managerial talent, lack of integrity among the management and the members in some cooperatives, are contributing to the inefficient performance of cooperatives in Malaysia. Hence, may affect the ability of cooperative to maintain certain level of accountability.

It is very important to develop the structure, systems and proper strategies that can allow cooperative to build their strength and bring lasting benefits to their members. With a good framework and an efficient oversight and monitoring structure can help cooperative in discharging its accountability to its members, donors and regulators.

Nevertheless, to solve certain problems or issues that hinder the cooperatives to enhance or improve it accountability, one should look at the root of the problems. So far the Malaysian government has played significant role in promoting and supporting this third sector. However, looking back the history of cooperatives in Malaysia has been littered with stories of cooperatives that got into trouble and subsequently bailouts by the Government. In 2005, the Deputy Entrepreneur Development and Cooperatives Minister Datuk Khamsiyah Yeop revealed that the Government had to allocate RM1 billion to bail out cooperatives in trouble [23].

The paper highlighted the deficiency in the current cooperative accountability practices and thus, opens up ideas and suggestions for future studies to fill up the gap of proposing the best practice framework for the Malaysian

cooperative.

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