

Cooperative Movements in Malaysia: The Issue of Governance

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Abstract—Cooperative organizations in Malaysia are going through a phase of rapid growth. They are seen by the government as another crucial vehicle to drive and boost up the country's economical development and growth. Hence, the issue of cooperative governance is of great importance. Unlike literatures on corporate governance for public listed companies', literatures on governance for social enterprises, in particular the cooperative organizations are still at the early stage in Malaysia and very scant in number. This paper will look into current practices as well as issues and challenges related to cooperative governance. The need for a better solution towards forming best practices of cooperative governance framework appears imperative in deterring cases of mismanagement and fraud.

Keywords—Cooperative, Governance, Issues, Malaysia.

I. INTRODUCTION

THE Malaysian government expects that cooperatives will become the third crucial engine after the public and privates sector in driving the nation's economic growth. The government has high confidence and commitment for cooperative movement and these were portrayed through the financial and non-financial aids included in many development plans [1]. In 2002, the National Co-operative Policy (NCP), 2002-2010 was launched with the aim of orderly re-developing cooperatives. The development of the NCP attests the government's recognition for the cooperative movement's role in Malaysian economic development.

The formation of cooperative is to fulfill the purpose of pursuing social-economic goals, involving the provision of services and community's economic revitalization [2]. As defined by the International Co-operative Alliance (ICA), cooperative is "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". Cooperatives assist the less fortunate people in reducing the risks of vulnerability and raising out of poverty by having a pooled resources and collective approaches towards social protection [3], [4]. These less fortunate group of people of whom investment offers no basis for influence were given access to the market in more realistic ways [5].

For the past 90 years, cooperatives in Malaysia have grown

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at a moderate but steady phase. Although the cooperatives performances may appear impressive; their growth developments are actually lagging behind those of the private businesses. In general, there is unequal growth of cooperatives where those in the urban area are developing at a faster stead whereas the rural cooperatives are struggling to cope within the highly competitive environment. Cooperatives are susceptible to even poor governance when internal weaknesses such as member's apathy and management inefficiencies arise. [6]

II. COOPERATIVE MOVEMENT

A. The Emergence of Cooperatives in Malaysia

One of the main reasons for the social-economy organizations to emerge is due to government and market failure. Failure in this context would mean, for instance, failure of the state to produce people of well-being, or failure of the market to generate healthy competition, being efficient and meet the needs of the consumers [2]. Early establishment of cooperatives tend to correct these failures and mainly focused on emphasizing and improving the needs of a particular type of member. Efforts of introducing cooperatives in Malaysia (then Federal Malay States) have started as early as in 1907. Initially in Malaysia, cooperatives were initiated by the British colonials to fight the chronic problems of deficit spending and rural indebtedness among local wage earners [6].

Following the early stage of cooperative development, newer form of cooperatives emerged where focus were made on issues affecting bigger community and involvement of different classes of actors [7]. For instance, in 1986, steps were taken by the Malaysian government to group unemployed graduates and incorporate them as worker's cooperatives. Resources and skills are pooled so that these graduates can become co-workers and co-owners of business venture for shared benefit. The incorporation of such cooperative movement was able to address bigger problems of rural outmigration and high unemployment and not just merely supplying essential consumer goods. This is in line with the long term objective of the NCP to transform cooperatives into an engine that is highly competitive, geared towards eradicating poverty and creating higher quality of life, consistent with the Malaysian Vision 2020 of national development.

When the Malaysian Prime Minister, Datuk Seri Najib took office in 2009, several sweeping measures were introduced which have led to a brand new paradigm in the country's

socio-economic development. Among others, these measures include the Government Transformation Programme (GTP) – to deal with public delivery systems, the Economic Transformation Programme (ETP) – to revitalise the growth of private sector, and the New Economic Model (NEM) – to become the blueprint for the nation's economic growth. As such, the purpose of cooperatives are not to simply uplift the standard of living for the cooperative members but also to realise the development agenda. On an individual basis cooperative may seem small, but the collective power of cooperatives is very impressive. For the period 2006 - 2011, the average increase in the number of cooperatives is 13.14 percent per annum, memberships grow by 3.8 percent per annum, total assets up by 20.08 percent per annum, capital increase by 7.56 percent per annum and returns increase by 42.5 percent per annum [8].

III. COOPERATIVE GOVERNANCE

A. *The Importance of Cooperative Governance*

In general, governance can be referred to as the situations or mechanisms of control and regulation within a particular system, group or organization [2]. Reference [9] refers corporate governance as a complex of rules, standards, procedures and institutions intended to guarantee good and responsible corporate management and to overcome deficits of corporate control. Regardless of its long history, the term governance is now widely used and commonly involves the relations between boards and managers, especially highlighting the proper conduct and exercise of control by the organization's board of directors [10].

In the context of cooperative organisation, governance is of prime importance due to its purpose of upholding the integrity of an organisation in fulfilling the purpose for which it was established. Being the vital part of the cooperative's purpose, the so called "cooperative governance" is therefore the preservation of the cooperative identity. This purpose will include the effective provision and delivery of products and services demanded by the members of the cooperative, within the context of forming their own common community. Ensuring that process supports purpose is very vital to produce one good governance practice. If the purpose itself is vague, then good governance will be much harder to attain [5]. By comparison, little discussion of cooperative governance reform has occurred, despite the fact that cooperative operate and compete in the same business environment as public corporations.

B. *Cooperative Legislations in Malaysia*

The cooperative legislation which has been governing cooperative movements since before the Malaysian independence was the Cooperative Act 1948. It was reviewed and was found to be an instrument not quite efficient for constitution and control purposes. Hence, it had been replaced by the Cooperative Act 1993 which unifies and consolidates the various legislations governing all cooperatives in Malaysia. The act aimed towards creating a self-regulating and

self-reliant movement through practices of transparency and accountability in its management. The Cooperative Regulations 1995 was established to further strengthen the law. Both Cooperative Act 1993 and Cooperative Regulations 1995 instill main features of promoting good management practices, enhancing member empowerment, encouraging the setting up of subsidiaries and enabling cooperatives to keep aside some portion of profit for the benefit and betterment of the community [6].

The Cooperative Act 1993 amended with 1995 (Act 928), was then amended again with 1996 (Act 963), 2001 (Act A1128) and 2007 (Act A1297). An agency, known as the Malaysia Cooperative Societies Commission (MCC), was established so as to monitor and regulate cooperative movements. With the setting up of the MCC, the latest Cooperative Act 2007 (Act A1297) was brought forth with the objective of promoting cooperative values of trustworthiness, transparency and honesty within the cooperative society development. Among the amendments made to improve the efficiency of cooperative governance was that any appointment or reappointment of cooperative board and internal audit committee will be verified by the MCC itself. Furthermore, any MCC's observations that have financial effect on the audited financial statements need to be adjusted accordingly to prevent cooperatives from concealing their real financial standing.

Other than the issuance of legislative acts for cooperatives, several guidelines were published by the MCC so as to strengthen the management and governance of cooperatives themselves. Among the recent guidelines being issued in 2010 are; (i) GP8: Guidelines on accounting for grants/assistance; (ii) GP9: Guidelines on collection of special savings, deposits or loans received; (iii) GP10: Guidelines on special investment scheme; (iv) GP11: Guidelines on cooperative conducting banking activities; (v) GP12: Guidelines on the establishment of cooperatives; and (vi) GP13: Guidelines on ethics of candidates of the board member of the cooperative. By enforcing these guidelines and regulations, the efficiency of cooperative governance may be improved and enhanced such that the ethical conduct among cooperative officers can be ascertained, as well as the interest of the members and the public will be protected. [11]

C. *Issues and Challenges of Cooperative Governance*

Cooperative movements in Malaysia are exposed to challenges and problems, and these needs to be tackled by the cooperatives themselves together with the government. The NCP has acknowledged the fact that not only cooperatives are small in size but they are also funded by a small amount of capital. It is very hard to get sufficient capital to fund their activities, thus cooperatives rely solely on conventional sources of capital, i.e. membership fees, share capital and accumulated profits. Alas, those with enough funds do not utilize it wisely, but rather channel it to other non-cooperative financial institution [12]. Problems are compounded when members have apathy problem and poor networking skills. In the long run such phenomenon will certainly jeopardize

cooperative performance thus affecting cooperative sectors very badly. These critical shortcomings arise in combination with several governance issues.

Cooperative boards play an important role in integrating the action of the managers with the interest of the members. The boards are given the responsibility to monitor the management performance, formulate long-term strategic plans, evaluate management proposals and understand all management undertakings of financial and strategic actions. In order to carry out their functions effectively, the directors of the board must have some basic literacy in finance and comprehension on business strategy [13]. However, it is getting even more difficult to hire appropriate board members, particularly in the third sector where most of the members are volunteer [14]. It is reported in [15] that a huge number of cooperatives are still managed and controlled by boards on voluntary basis, not on a full time basis by professionals. Notwithstanding, the board failure to set apart administrators and policy makers has led the board to lose focus and put the strategic planning of cooperative at the last priority. Such weaknesses have triggered the cooperative board members to take full advantage of their top position. Some even meddle with illegal investment activities, characterized by the dodgy quick-rich scheme. The absence of authentic cooperative principles and values has resulted for certain unscrupulous and irresponsible people in the society to form cooperative and take advantage by collecting investments and deposits for their own personal gain [16].

It is often the case that board members of the cooperative movement failed to manage the interdependencies between boards and management [14]. Reference [17] further contended that the boundaries between the two parties are normally somewhat blur, especially in small organizations. By right, members of the board are responsible with strategic matters and not with those related to operational issues. Nevertheless, drawing the line between strategic and operational matters itself is quite difficult [18] and [19].

The minister of the Ministry of Domestic Trade and Cooperative and Consumerism conferred that members of the board are prone to be selected in the general meeting based on one's popularity rather than one's integrity and expertise. Further, the internal audit committee does not carry out their responsibility of monitoring and reviewing the daily operation of cooperative, nor do they highlight and report any discrepancies or deficiencies of the cooperative's system that they come across. There are even cases where candidates who failed in their nomination of the board resolve to take illegal actions of blackmailing and spreading lies to the media and other renowned leaders with the purpose to frame up the cooperatives and its ministry [8].

A study done by [20] found that the underlying issues of wrongdoing cases in the third sector are mainly due to the absence of proper oversight and failure of maintaining good accountability mechanisms. In respect to this matter, the Cooperative Societies Act 1993 has made it mandatory for each cooperative to have its own Internal Audit Committee (IAC), which is appointed among its own member, to ensure

better control. However, there are some problems pertaining to cooperatives' IAC itself. Based on the study done by [21], out of the 473 IAC members that responded (64.2% response rate), findings showed that only 53.3% of IAC members have good level of knowledge of their functions, one third have yet to attend the mandatory training programme, one third (33.2%) does not comply with the requirement to audit at least once every three months and there is a substantial high number of non compliance in submitting the required number of audit reports.

Having poor governance, several symptoms may result indicating governance failure in cooperatives. Among these are inappropriate delegation of authority, failure to oversee and supervise operations, neglecting of assets, low board members turnover, failure in asking the "right questions", isolation of the board members from the staff and programs, poor internal controls and lack of appropriate of check and balance in practices and procedures [22].

IV. COMBATING POOR GOVERNANCE

The Malaysian Prime Minister highlighted that cooperatives should implement good governance, similar to what had been required by the government of government-linked companies (GLCs) [23].

In respond to the outstanding issues of governance in cooperative movements, the MCC continues their endeavor in further strengthening the cooperative governance for the sake of transforming cooperatives towards excellence enabling them to contribute significantly towards the development of the nation. This is evidenced in year 2010 where it marks the period the MCC initiates the implementation of the GP3: Guideline for Appointment or Re-appointment Board Members of Cooperatives. It is a guideline on the verification process for appointing and reappointing members on the board. As outlined in the guideline, only those who have the credibility and integrity will be appointed to head the cooperative. This is one of the ways of ensuring that cooperatives are well governed and objectives are achieved.

Further the attempt in instilling better monitoring and control, the Cooperative Societies Act (1993) has stipulated that each cooperative should have its own IAC. The IAC should comprise not less than three and not more than six members, appointed from among the members of the cooperative. The IAC are accountable to examine the account (alternatively, by other appointed competent person) at regular intervals, not less than once every three months. This is to ensure that cooperatives are conducted according to its purpose of establishment, by-laws provisions and resolutions adopted in the general meeting. The IAC is also required to present at the annual general meeting any discrepancies that occur in the cooperative's management. According to Section 43 (2), (3) Act A1297 (Act 2007), the MCC was given the authority to verify any appointment or reappointment made of IAC or the cooperative board. MCC scrutiny is essential to ensure that only appropriate, trustworthy and responsible members are appointed on the board to ensure effective governance.

Furthermore, the new Act 2007 spells out that any cooperative or officer, who fails to comply with any of the subsections or provisions of the Act, will be fined with a certain stipulated amount. Fines are liable to all members of cooperative committing offences including the board member, the chief executive officer and even the management staff. The imposition of high penalty acts as a warning and deterrence to those concerned and shows that the government is really serious about combating poor governance and negligence towards the cooperative Act compliance [6]. It appears imperative in the light of the massive fraud cases and collapses of business firms nowadays.

The government continues with the second National Cooperative Policy (2011-2020) that charts the direction for cooperative development without compromising the values and philosophies of cooperative, i.e. transparency, trustworthiness and honesty. It involves the setting up of five strategic thrusts and implementation strategies; including human capital development, involvement in economic sector of high value, improving business capacity and capability, strengthening public confidence and enhancing the effectiveness of supervision and enforcement. Supervision and governance is one key result area by which the success of the NCP 2011-2020 implementation can be gauged. By this, incorporation of best business practices and values as well as compliance with cooperative laws is observed. Effective supervision strategy is measured through the improvement in efficient management of cooperative, improved productivity and responsiveness towards the need of the public and the changing environment. The latest report by the Ministry of Domestic Trade and Cooperative and Consumerism in August 2012 [24] reveals that 90% of cooperatives' annual financial statements are audited and 90% of all the cooperatives convene annual general meeting. It is expected a reduction to 1% will be realized for cases of non-compliance with cooperative laws.

V. DISCUSSION AND CONCLUSION

Issues arise when the idea of serving the needs of individual members leaves the cooperative open to funds abuse and attacks by those greedy people who join for the sake of asset stripping the cooperative organisation [5]. "Minimal participation and an often selfish membership with a predatory rather than supportive motive is hardly surprising in today's global individualistic and materialistic culture" [5, p. 33].

According to [25], the implementation of corporate governance is much more difficult in cooperative movement compared to public corporations due to a number of reasons. Firstly, due to the application of one-member one-vote principal in cooperative, a member who have a large stake in the cooperative and supply a major volume of produce, may have no more say than other minor suppliers and dry shareholders. Secondly, there is no external scrutiny for cooperative from the skilled investors, including analysts and financial institutions, as applied in the public companies. Last but not least, typically the cooperative directors have less skills and experts compared to the directors of public

companies. Given a wide spread in ownership, cooperative directors may have lesser incentive to provide effective governance. As a consequence, owners give less effective oversight as opposed to the public corporations, and thus lead to excessive control by the management.

This paper highlights current practices as well as deficiencies in the cooperative governance system and thus, opens up ideas for future studies to fill in the gap of proposing the governance best practice framework for the Malaysian cooperative movement, consistent with what has been stressed by [9].

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