



Governance: Issues and Challenges in Malaysian Co-Operative Movement

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Governance in general, can be referred to as the situations or mechanisms of control and regulation within a particular system, group or organization. Meanwhile, corporate governance is define as the process and structure used to direct and manage the business and affairs of the company towards enhancing business prosperity and corporate accountability. The ultimate objective of corporate governance is to realize long term shareholders value, whilst taking into account the interests of other stakeholders.

Regardless of its long history, the term governance is now widely and commonly used in highlighting the proper conduct and

exercise of control of the organization's board of directors and managers. In the context of co-operative society, governance is of prime importance due to its purpose of upholding the integrity of the society in fulfilling the purpose for which it was established.

Being the vital part of the co-operatives purpose, that so called "co-operative governance" is therefore the preservation of the co-operative identity. This purpose include the effective provision and delivery of products and services demanded by the members of the co-operative, within the context of forming their own common community.



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Pillars of Good Governance

Accountability is a fundamental requirement for good governance. Accountability means the imperative to make public officials answerable for their behaviour and responsive to the entity from which they derive their authority. Accountability also means establishing criteria to measure the performance of public officials, as well as oversight mechanisms to ensure that standards are met. Another requirement for good governance is participation which is often related to accountability either directly or through legitimate representatives and is a key cornerstone of good governance. Participation needs to be informed and organized, including freedom of expression and assiduous concern for the best interests of the organization and society in general.

Other requirement is predictability which refers to the existence of laws, regulations and policies to regulate activities and their fair and consistent application. Transparency is the other fundamental requirement which refers to the availability of information to the general public and clarity about rules, regulations and decisions.

Most attempt to measure the quality of corporate governance focus on compliance-related issues.

Numerous rating models also seem to focus on the inputs of governance, such as the composition of boards and the separation of the CEO and chairman roles. However, they do not pay sufficient attention to the quality of information, decision-making processes, nor link the effectiveness of governance to output measures such as the brand image, employee and customer satisfaction indices, or profitability and value creation. Also, most measures fail to deal with learning and development in governance.

In short, good corporate governance is very important for sustainable development, not only for the individual company, but also for the economy as a whole. Therefore, the quality of governance should be continuously improved and good governance should be promoted. However, what is not measured cannot be improved. Hence, there is a need for a model to measure the quality of corporate governance.

Issues and Challenges of Co-operative Governance

Co-operative 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. Other literatures also defined co-operative as a business that is owned and controlled by the people who use its services or by the people who work there. Co-operative 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, co-operatives have now turned into an efficient business. Since it was firstly introduced ninety two years ago, co-operative movement had such a great impact on the Malaysian economic development. This can be seen from the current trend, where the performance of co-operative movement has shown positive growth from year to year.

The increase in numbers of co-operative has led the government to actively plan for the co-operative movement in Malaysia. One great plan was implemented in July 2010, where the Prime Minister has launched the 2011-2020 National Co-operative Policy (NCP). The NCP 2011-2020 is established with the focus on directing and stimulating the growth of co-operative revenue on a long term basis which is in line towards developing Malaysia into becoming a developed and high income country by 2020.

For the past 92 years, co-operatives in Malaysia have grown at a moderate but steady phase. Although the co-operatives performances may appear impressive, their growth developments are actually lagging behind those of the private businesses.

In general, there is unequal growth of co-operatives in the urban area which are developing at a faster speed compared to the rural co-operatives that are

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still struggling to cope with the highly competitive environment. Co-operatives are susceptible to poor governance when internal weaknesses such as member's apathy and management inefficiencies arise.

Co-operative movement in Malaysia is exposed to challenges and problems, and these needs to be tackled by the co-operatives themselves together with the government. The NCP has acknowledged the fact that not only co-operatives are small in size but they are also funded by a small amount of capital. It is very difficult to get sufficient capital to fund their activities, thus co-operatives rely solely on conventional sources of capital, i.e. membership fees, share capital and accumulated profits.

Problems are compounded when members have apathy problem and poor networking skills. In the long run such phenomenon will certainly jeopardize the co-operative performance thus affecting co-operative sectors very badly. These critical shortcomings arise in combination with several governance issues.

Co-operative Board plays an important role in integrating the action of the managers with the interest of the members. The Board members 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 be able to comprehend business strategies.

However, it is getting even more difficult to appoint appropriate board members, particularly in the co-operative society where most of the members are volunteers. It is reported that a huge number of co-operatives are still managed and controlled by members of the 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 co-operative at the last priority.

Despite having their own legislations, co-operative were facing problems with non compliance of Co-operative Societies Act 1993 and related legislation. The non compliance with the Act is a serious matter that needs to be addressed. Section 45 of the Co-operative Societies Act 1993 which provides that the liability of members of the Board where in conducting of the affairs of a co-operative society, the members of the Board shall exercise the prudence and diligence of ordinary men of business and shall be jointly and severally liable for any loss sustained through failure to exercise such prudence and diligence or through any act which is contrary to the provisions of this Act, the regulations, order or the by-laws of such co-operative society or the direction of its general meeting.

Such weaknesses have triggered the co-operative board members to take full advantage of their top position. Some even meddle with illegal investment activities, characterized by the quick-rich scheme. The absence of authentic co-operative principles and values has resulted for certain unscrupulous and irresponsible people in the society to form co-operative and take advantage by collecting investments and deposits for their own personal gain.

The Minister of the Ministry of Domestic Trade, Co-operative and Consumerism conferred that members of the board are prone to be appointed in the general meeting based on one's popularity rather than one's integrity and expertise. Furthermore, the Internal Audit Committee (IAC) does not carry out their responsibility of monitoring and reviewing the daily operation of co-operative, nor do they highlight and report any discrepancies or deficiencies of the co-operatives 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 co-operatives and its Ministry.

A study 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 Co-operative Societies Act 1993 has made it mandatory for each co-operative to have its own Internal Audit Committee (IAC), which is appointed among its own members, to ensure better control.





However, there are some problems pertaining to co-operatives' IAC itself. Based on the study, it was found that 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.

Combating Poor Governance

The Malaysian Prime Minister highlighted that co-operatives should implement good governance, similar to what had been required by the government of government-linked companies (GLCs). In respond to the outstanding issues of governance in co-operative movements, the Malaysian Co-operative Societies Commission (MCSC) continues their endeavor in further strengthening the co-operative governance for the sake of transforming co-operatives towards enabling them to contribute significantly towards the development of the nation.

This is evidenced in year 2010 where it marks the period the MCSC initiates the implementation of the (Guidelines 3) GP3: Guideline for Appointment or Re-appointment Board Members of Co-operatives. 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 co-operative. This is one of the ways of ensuring that co-operatives are well governed and objectives are achieved. Recently, MCSC has issued new Guideline (Guidelines 27) related to governance and it lay down general principles and minimum standards requirement of governance as a reference for co-operative best practices.

Further, the attempt in instilling better monitoring and control, the Co-operative 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 five members, appointed from among the members of the co-operative. The IAC are accountable to examine the account at regular intervals, not less than once every three months. This is to ensure that co-operatives 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 co-operatives management.

Furthermore, the Co-operative Societies Act 1993 spells out that any co-operative or officer, who fail 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 co-operative 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 Co-operative Act compliance.

Apart from that, positioning knowledge management can enhance the way co-operatives operate. Leading management and organization theorists have popularized the concept of treating organizational knowledge as a valuable strategic asset. Furthermore, it is 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 co-operatives by way of training and education. The effort to provide training and education to the co-operative movement in Malaysia is done by the Co-operative College of Malaysia (CCM). CCM is the one and only co-operative education institution in Malaysia. It was established in 1956. To date CCM has organized and conducted many seminars, workshop and short-term courses for co-operative societies. CCM is also accountable in conducting mandatory courses for the Board members of co-operative and the Internal Audit Committee which comprises of three modules, Governance, Financial Management and Strategic Management. With all of the efforts done by CCM, it will help the co-operative to improve the level of accountability of co-operative in discharging its responsibilities to its members and government.

The government continues with the second National Co-operative Policy (2011-2020) that charts the direction for co-operative development without compromising the values and philosophies of co-operative, 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. In line meeting the NCP, the co-operative sector needs to have a turnover of at least RM114.9b. Based on the existing linear growth ratios, the contribution of the co-operative sector is estimated to contribute RM77b (approximately 6.7% to the national GDP) in 2020. By this, incorporation of best business practices and values as well as compliance with co-operative laws is observed.

Conclusion

Good governance is an idea which is difficult to achieve in its totality. Governance typically involves well-intentioned people who bring their ideas, experiences, preferences and other human strengths and shortcomings to the policy-making table. Good governance is achieved through an on-going discourse that attempts to capture all of the considerations involved in assuring that stakeholder interests are addressed and reflected in policy initiatives.

Malaysian co-operative movements faced many problems and challenges that need to be addressed by the co-operative 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 co-operatives in Malaysia. Hence, may affect the ability of co-operative to maintain certain level of accountability. It is very important to develop the structure, systems and proper strategies that can allow co-operative to build their strength and bring lasting benefits to their members. Good framework and an efficient oversight and monitoring structure can help co-operative in discharging its accountability to its members, donors and regulators.

The ultimate control of any corporation is legally in the hands of the board of directors. In a co-operative, however, the board is responsible to its members as user rather than to investors whose first objective is to maximize profits. Taking the time to listen to members,

learning the issues, understanding the responsibilities of directors and how their role differs from other key people, and making decisions based on what is in the best interests of the membership, will allow the co-operative director to serve members effectively. 

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