Factors Affecting Cooperatives’ Performance In Relation To Strategic Planning and Members’ Participation

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Abstract

The cooperative society plays significant roles towards the economic development in Malaysia. It was first established in 1922 to protect the welfare of rural people and has expanded its establishment until today. With the aim to help its members, it is said that cooperative needs to accelerate its performance. However, there are issues regarding its weaknesses, especially in the management, financial and members’ participation. Therefore, this study aims to identify the factors influencing its performance through strategic planning and members’ participation. Questionnaires constructed have been distributed among cooperatives board members in Kota Setar District, Malaysia. The findings provide guidance for the cooperative to improve its shortcomings performance towards realizing the National Cooperative Policy 2011-2020.

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Keywords: Cooperatives; strategic planning; human capital; members participation; performance

1. Introduction

The cooperative society was first established in Malaysia since 1922 to protect the welfare of rural people and to avoid them from the exploitation. The establishment is not only to improve the wellbeing of its members but also to eradicate the poverty and act as the distribution tools of national wealth. With the aim to help its members, it is said
that cooperative needs to accelerate its performance in order to transform the nation to be the high income nation by the year 2020.

Cooperatives in Malaysia are regulated under the Commission of Co-operative Malaysia, also known as Suruhanjaya Koperasi Malaysia under the Ministry of Domestic Trade, Co-operatives and Consumerism. Generally, cooperative is one of the entities owned and controlled by the same person using the services. Cooperatives can be defined as “a society registered under the Co-operative Societies Act 1993 with the objective is to promote economic interest among its members in accordance with cooperatives principles” (Suruhanjaya Koperasi Malaysia, 2009). Co-operative Societies Act 1993 stated on the procedures of the registration, rights, privileges and other matters related to the cooperatives.

There are 8,300 associations in this country as compared to only 4,000 cooperatives in the year 2008 (Suruhanjaya Koperasi Malaysia, 2011). One of the reasons of this increment is because of the government effort and support to implement programs to help the growth of cooperative movement in this country. Cooperatives in Malaysia are categorised according to the nine categories based on their functions namely banking, credit / financial, agriculture, housing, industry, consumer, construction, transportation and also services (Suruhanjaya Koperasi Malaysia, 2011). In terms of movement, number of cooperative positively increase every year with approximately 11.58 percent increase in a year, membership increase by 2.83 percent, share capital improve by 5.7 percent, assets increase by 15.71 percent and revenue also increase approximately by 15.68 percent a year within five years (2006-2010). Nevertheless, the movement of the cooperative society in our country is still considered less develop as compared with other countries though the cooperative society plays a significant role towards the economic development in Malaysia. This happens due to lack of active participation among the cooperative societies in doing the business. In effort to help the cooperatives, government had first introduced the National Cooperative Policy 2002-2010 with the focus to assist the cooperatives to actively participate in the country’s development. Therefore, study aims to examine the factors influencing cooperatives performance through strategic planning and members’ participation. This study focuses on cooperatives in Alor Setar, Kedah as it is one of the state where there is a high number of registered cooperatives.

2. Literature Review

There are several contributing factors that lead to cooperatives’ performance. Strategic planning, members’ participation, human capital, structural and relational capital are among the identified factors by past literatures. Past and present literatures agree that strategic planning is one of the factors contribute towards firms’ performance. Strategic planning is a process of carrying out the firms’ mission, vision, objectives and goals of the organisation. Every board of directors must understand the strategic planning they have in their organisation to ensure that their business runs, moves toward achieving their objectives. A survey conducted among the 200 general managers and board presidents of agricultural cooperatives in Minnesota and Wisconsin reported that all Board agreed that cooperative should had well defined missions, objectives and goals but disagreed that their cooperative had a well developed and written strategic planning (University of Wisconsin Centre for Cooperatives, 2000). Past study had found a positive significant influence of the strategic planning on cooperatives’ performances. This is supported by a tentative framework developed in study conducted that having a long term plan for cooperative will influence the performance of cooperatives in Malaysia (Sushila, Nurizah, Mohd Shahrain, Rafedah and Farahaini, 2009). Moreover, a study conducted among the 250 board of directors of cooperatives in Malaysia also reveals that cooperative that has a strategic plan for at least 3 years significantly contribute towards the success of cooperatives (Sushila, et. al., 2010). On the other hand, Falshaw, Glaister and Tatoglu (2005) in their study of 113 UK companies found that there is no relationship between strategic planning and company performance. The importance of strategic planning in cooperatives cannot be denied as Pathak and Kumar (2008) in a study conducted in Fiji on factors contributing towards cooperatives’ successful performance demonstrated the main reason that cooperatives were unsuccessful in Fiji was due to inadequate planning. Therefore, these studies incorporate strategic planning as one of the important factors to determine cooperatives performance.

Besides having a good strategic planning, the goals and objectives of the organization can be achieved if there is a contribution from its members. Participation is defined as the involvement or state of participating of the members in the activities in the organization. Member participation in cooperatives activities especially in the cooperative governance is very important for the long run survival of a cooperative. According to report produced by United States Department of Agriculture (2011), active member participation would help the management in carrying out
their responsibilities since the members’ involvement would maintain the direction of the cooperatives towards enhancing the cooperatives’ performance. Study conducted among cooperatives in Malaysia produced two main elements that reflect the members’ participation which firstly is the participation in the policy making process through the attendance at annual general meeting and secondly is the patronage on cooperative products and services offered by their association (Sushila, et al; 2010). Amini and Ramezani (2008) in investigating the success factors of Poultry Growers’ Cooperatives in Iran identified active member participation in the administration of cooperatives as a key factor influencing the successful performance of cooperatives. On the other hand, evidence from French cooperatives point out the typical findings that productivity effect from participation, however, is small, around 5% of the total cooperatives output. In addition, Dato Seri Najib Tun Razak in his message in National Cooperatives Policy (2011-2020) agrees that members’ active participation and loyalty among the cooperatives members will determine the success of cooperative societies as they are also the consumers, employees and leaders in the cooperatives. Members’ participation was therefore incorporated as a variable in this study.

In this study, cooperatives’ performance had been measured based on profit and sales growth, after-tax return on asset and after-tax return on sales except for school cooperatives. As for the school cooperatives, their performance is measured by profit and sales growth. It is supported with the research report produced by United States Department of Agriculture in measuring their cooperatives’ performance (USDA, 2006)

3. Method

This research used the quantitative method to examine the factors affecting cooperatives performance in relation to their strategic planning and members’ participation. A survey using Self-Administered Questionnaires had been developed and it was distributed to the respondents among 50 Cooperatives Board Members. The data collected from questionnaires were analyzed using Statistical Package for Social Sciences (SPSS) version 16.0 software. Descriptive statistics is used to explain the types of cooperatives in Malaysia. Besides, Pearson Correlation is employed to explain the factors affecting cooperatives’ performance. Descriptive analysis is used to determine the demographic variables while Pearson’s correlation coefficient will be use to determine whether there is a significant relation between the independent variables with the dependent variable. The hypothesis is developed to know whether there is a relationship between strategic planning and human capital with performance of the cooperatives.

4. Results and discussion

In order to identify the relationship between strategic planning and members’ participation with cooperatives’ performance, the findings first outline the discussion on the types of cooperatives’ and characteristics of cooperatives board members based on the frequency analysis, followed by the discussion on the factors affecting cooperatives performance in relation to their strategic planning and members’ participation.

4.1 Types of cooperatives

| Types of cooperatives | Frequency | Percent (%) |
|-----------------------|-----------|-------------|
| Services              | 24        | 48          |
| Credit                | 9         | 18          |
| Consumer              | 7         | 14          |
| Agriculture           | 1         | 2           |
| Construction          | 1         | 2           |
| Others                | 8         | 16          |
| **Total**             | **50**    | **100**     |
Table 4.1 shows the types of cooperatives performance in Kedah, Malaysia. Most of the cooperatives (24 cooperatives, 48%) are Services Cooperatives followed by 9 Credit Cooperatives. In Kedah, majority of cooperatives are Services Cooperatives because these cooperatives run the business and provide the services such as spa, mini market, taxi and bus services and many more. In addition, School Cooperatives are among the identified cooperatives in this study and they operate the business with the major functions of providing the services to their students and staff as their members. Majority of cooperatives (20 cooperatives, 40%) in Kedah were established since 1970 while another 15 cooperatives were established since 1990 onwards. In terms of characteristics of board members, this study has a total of 50 respondents whereby majority of board members are male which contribute to 31 respondents (64.6%) and the rest are female consists of 17 board members (35.4%). Among the board members, majority of them, 36 respondents (74.7%) aged more than 36 years old. This is because most of them are pensioner and experienced teachers. Based on the observation, the researcher found that cooperatives board members in Kedah, Malaysia consist of retired people. This is because younger generations were not interested to be part of the board members not even as the ordinary cooperatives’ members. The study also found that most of the respondents are married which consists of 48 respondents (96%) with majority of them are Malays consists of 49 board members (98%). Only one cooperative board member is Chinese because the nature of cooperatives in Malaysia consists of Malay as majority members and only few members are Chinese. This might be due to lack of awareness among them to join the cooperatives. In term of their educational level, 19 board members having Degree as their higher qualification and they are among the school teachers in Kedah area. Based on analysis, most of the cooperatives board members consist of 42 have attended the compulsory course known as ML100 which is compulsory for all the board members which was mostly conducted by Malaysian Cooperatives Commissions. However, another 8 board members did not attend the course due to no information from ‘Maktab Kerjasama Malaysia (MKM)’ and some of them were busy with their work.

4.2 Factors affecting cooperatives performance

Table 4.2: The relationship between strategic planning and cooperatives’ performance

| Correlations          | Strategic planning | Cooperatives’ performance (Profit growth) |
|-----------------------|--------------------|------------------------------------------|
| Pearson Correlation   | 1                  | .253*                                    |
| Sig. (1-tailed)       | .038               |                                          |
| N                     | 50                 | 50                                       |

* Correlation is significant at the 0.05 level (1-tailed).

Results of the correlation indicate that there is a weak positive relationship between strategic planning and cooperatives performance measured by their profit growth as the Pearson correlation value 0.253, \( r = 0.253 \). Strategic planning is important for cooperatives in ensuring their continuous business. Every cooperative should conduct at least short-term plan and the top management must responsible for the cooperatives strategic planning. It is supported by a study conducted among the 250 board of directors of cooperatives in Malaysia also reveals that cooperative that has a strategic plan for at least 3 years significantly contribute towards the success of cooperatives (Sushila, et. al., 2010). Data shown supported the previous study, however, the cooperatives’ strategic planning is not the main factor that directly affects their overall performance. This is because most of the cooperatives in Kedah did not properly develop their strategic planning and some of them only develop their short term planning instead of their long-term. In addition, most of school cooperatives did not have their own strategic planning. On the other hand, Falshaw, Glaister and Tatoglu (2005) in their study of 113 UK companies found that there is no relationship between strategic planning and company performance.
Results of the correlation indicate that there is a weak positive relationship between members’ participation and cooperatives performance measured by their profit growth as the Pearson correlation value $0.236$, $r = 0.236$. Study conducted among cooperatives in Malaysia produced two main elements that reflect the members’ participation which; one is participation in the policy making process through the attendance at annual general meeting and second is patronage the cooperatives products and services offered by their cooperative (Sushila, et al; 2010). This study shows that even though participation from members are importance for the cooperative movement and board members agree that opinion from members during their annual meeting may contribute towards their performance, but still there is lack of participation from their members as some of the cooperatives viewed the cooperatives not as importance as the other business. They only attend the annual meeting but not actively involved in the administration of those cooperatives and resulted to weak relationship between the variables.

5. Conclusion and Recommendations

Overall, this study shows that cooperatives’ strategic planning and participation from their members are the identified factors that contribute to their overall success and performance. The result confirmed the hypothesis developed as it shows that there is a relationship between the variables involved. Nevertheless, these two factors are not considered as the major factors affecting the cooperatives’ performance as the results indicated the weak positive relationship between the variables. Even though most of the cooperatives developed their strategic planning in guiding their business, but it is very profound that strategic planning is not significantly affecting the direction of their cooperatives. Several recommendations have been made in guiding the cooperatives to further improve their performance. First, cooperatives may develop their strategic planning that can strengthen their cooperatives’ activities. In addition, it is highly suggested that these cooperatives need to have their own mission and vision and focus on the long-term planning which reflected from their vision and mission. In terms of members, the cooperatives need to regularly communicate with them regarding any updated information, activities and also increased their involvement in cooperatives’ decision making so that this third economic contributor can help the government effort in becoming the high-income country. This study revealed that it is importance for the cooperatives to have adequate planning and encourage the participation from its members in their administration. This is because, when their performance is improved, indirectly it can boost the economics of the country as well as promoting job creations as a strategy in reducing poverty. Since their establishment aims to help its members, it is vital to ensure their success. Thus, this result may give the benefits to the other country in order to further improve their performance by focusing on these factors as it can help them in determining their success and indirectly can improve their standard of living of their society. However, due to certain limitations involved such as limited scope of study, method used and variables involved, this study suggests that more variables should be employed in determining the factors influencing their performance by looking at the aspects of corporate governance, financial support, marketing strategies and combination of quantitative and qualitative method is proposed for future research.

Table 4.3: The Relationship between members’ participation and cooperatives performance

|                  | Members’ participation | Cooperatives’ performance (Profit growth) |
|------------------|------------------------|------------------------------------------|
| Pearson Correlation | 1                      | .236*                                    |
| Sig. (1-tailed)  |                        | .049                                     |
| N                | 50                     | 50                                       |

* Correlation is significant at the 0.05 level (1-tailed).
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