



## Business Performance of Cooperatives in Malaysia: Issues, Challenges and Future Direction

*Dzulkarnain Musa<sup>1</sup>, Imran Musa<sup>2</sup> & Noraini Muhammad<sup>3</sup>*

<sup>1</sup>Department of Commerce, Polytechnic Tuanku Syed Sirajuddin, Arau, Perlis, Malaysia  
Corresponding Email: dzulmusa@gmail.com

<sup>2</sup>Department of Commerce, Polytechnic Sultan Abdul Halim Mu'adzam Shah, Jitra, Kedah, Malaysia  
Email: imran\_ms@polimas.edu.my

<sup>3</sup> Department of General Studies, Polytechnic Tuanku Syed Sirajuddin, Arau, Perlis, Malaysia  
Email: animuhammad83@gmail.com

---

**ABSTRACT:** The performance of business in cooperatives sector should be grown rapidly every year. It is in line with the goals of its establishment which aims to mobilize the resources of the members for their economic and welfare benefits. Nevertheless, the cooperatives' membership which has recorded rapid growth each year does not support the significant increase of some of its key economic performance indicators. In this regard, this study aims to examine the development of cooperatives business in Malaysia in order to know the current position of its performance. In addition, the study also want to examine several issues arising from the performance of the cooperatives business and the challenges they faced. The data and figures discussed are derived from secondary sources especially from SKM and ICA, as well as references from previous studies. Some suggestions are also discussed for future directions.

---

**Keywords:** Business performance, issues and challenges, key economic indicators, cooperatives.

---

### 1.0 Introduction

The cooperative is a unique organization due to the differences with other business firms. Significant differences can be seen in the form of ownership based on the participation of the public including the customers and users of the product and the workers of the cooperative itself. The goal of establishing a cooperative is to meet the existing needs of its members. Its management practices are based on the principle of democracy through the control of one member for only one vote. In addition, the profits earned not only through the distribution of dividends but also through the improvement of the quality of services they receive.

#### 1.1 Background of the Study

The global cooperatives movement has begun long time ago. But the history of the modern cooperative movement has started since the 1800s with the establishment of a cooperative named 'Rochdale Pioneers' in 1844 [The International Co-operative Alliance (ICA), 2018a]. The establishment of the cooperative has become the basis of the global cooperative movement. Its establishment was made through the cooperation of a group of twenty-eight cotton factory workers in Rochdale City, Northern England (ICA, 2018a). They have formed the first modern cooperative business under the name 'Rochdale Equitable Pioneers Society'. Their business activities are made through merging limited resources by offering basic necessities at low prices. This was due to the low pressure of the wage environment, and the high prices of goods at that time. Each customer provides support through their membership with democratic rights and interests in the business (ICA, 2018a). The formation of the cooperative has been recognized worldwide despite the movement of grass-roots organizations that are moving in small parts of Western Europe, North America and Japan in the mid-18th century (ICA, 2018a).



In Malaysia, cooperatives movements began in British colonial times in the early 1900s. The idea of its establishment was introduced by Sir Arthur Young in 1907 (Cooperative Commission of Malaysia [Suruhanjaya Koperasi Malaysia - SKM], 2018a) with an introduction to the concept of money borrowing. The first co-operative firm was established by the *Syarikat Bekerjasama-sama Jimat Cermat dan Pinjam Wang Pekerja-pekerja Jabatan Pos dan Telekom Berhad* (SKM, 2018a). This cooperative or the new name of the *Koperasi Telekom* was established on 21 July 1922 with the initial activity of providing credit services (Mohamed Khaled, 2007). According to Mohamed Khaled (2007), in 1922, the first co-operative law of 'Co-operative Societies Enactment 1922' was approved. Subsequently, cooperative movements have grown among smallholders (Rosmimah & Herwina, 2012).

While in East Malaysia, cooperative movements began in 1949 in Sarawak with a focus on sago cultivation activities (Jamilah et al., 2008). In short, the cooperative movement has grown in our country. Various fields of economy have been enlisted by cooperative firms in Malaysia encompassing services, production and agriculture (SKM, 2018a). The diversity in cooperative business activities has contributed to the country's revenue and is the main agenda of the government in Malaysia's effort to become a developed nation by 2020 (Mangsor, 2010).

Cooperatives like other businesses are also faced with dynamics and new challenges from inside and outside of the organizations that are able to influence their performance (SKM, 2010). Changes in economics, politics and environment such as the global economic downturn, market liberalization process, the emergence of new technologies and developments in information and communications technology (ICT) demand cooperatives to strengthen their position and enhance their competitiveness in the market. The new shift in socio-economic development of the country has included the cooperative sector as a core in raising the economic status of the population [Majlis Penasihat Ekonomi Negara (MPEN), 2010]. In the National Key Result Areas (NKRAs) that were drafted through the National Transformation Program, the government introduced the New Economic Model in 2010 to make Malaysia a high-income developed country (MPEN, 2010). This development creates a new challenge for mobilizing cooperatives to play a more effective role not only in raising the members' economic standards but also in helping the government in realizing the country's development agenda.

To address these challenges, cooperatives are advised to be more productive, creative, innovative and efficient in line with the private sector (SKM, 2010). The involvement of cooperatives in high economics value especially in value-added activities can generate wealth to cooperatives, benefiting members and contributing to the achievement of national development goals (SKM, 2010). There is a challenge for cooperatives in addressing existing issues but it needs to be addressed immediately and wisely for the success of their respective cooperatives. The success of the cooperative is crucial in ensuring that the goals of its establishment can be achieved through the fulfillment of members' needs. In this regard, the study aims to review the cooperatives sector in Malaysia, especially in terms of the development of the firm's business performance and related issues that are able to cope with the developments. Some future directions are also discussed.

## 1.2 *The Development of Business on Cooperatives in Malaysia*

The Malaysian government has recognized the cooperative sector as a major contributor to the country's economic growth. In line with that, the government's special focus has been on cooperative entrepreneurship in generating the country's economic growth. This is evident from the government's efforts in empowering cooperative entrepreneurship through the transformation program from the Cooperative Development Department (JPK) to the Cooperative Commission of Malaysia [SKM] on 1 January 2008 (SKM, 2010). According to SKM (2010), the purpose of setting up SKM is a string of constraints and limitations on the JPK. Through SKM, various efforts and assistance have been given by the government in producing successful cooperative organizations.

Entrepreneurship in cooperatives is seen as an important sector for the government. Through the *First National Cooperative Policy (DKN): 2002-2010*, the government has recognized the cooperative sector as a catalyst for Malaysia's economic development (SKM, 2010). DKN is enacted to create a plan of action that aims to make the cooperative an undisputed institution of national progress and thus generate the country's economic growth (Mohamed Khaled, 2007).

Additionally, the 9th Malaysia Plan (RMK9) for 2006-2010 outlines the cooperative sector as a means and government effort in eradicating poverty among populations (SKM, 2010). The plan is thus able to bring prosperity to national economics. In various countries, cooperatives sector contributed to Gross Domestic Product (GDP) such as to Finland as much as 16.1%, New Zealand (13.9%), Switzerland (11.0%), Netherlands (10.2%) and Norway (9.0%) (ICA, 2018b).

### 1.2.1 Participation of Members

In terms of population, most countries in the world have large populations in their cooperative movement. This can be seen through the participation of populations in cooperative for Finland as much as 62%, Singapore (50%), Indonesia (27.5%), USA (25%) and Malaysia (24%) (ICA, 2018b). The huge involvement of 24% of Malaysians in the cooperative movement has been significant in recent years, especially with encouragement and strong support from the government. Table 1 shows the number and distribution of membership of cooperatives in Malaysia by states with data quoted from 2010 to 2016.

**Table 1**  
Cooperatives Membership by State of Malaysia from year 2010 to 2016

States	2010	2011	2012	2013	2014	2015	2016
Johor	448,280	451,318	456,310	450,232	467,114	476,604	481,298
Kedah	317,924	327,766	327,926	343,092	340,508	326,621	300,343
Kelantan	338,691	342,882	338,888	337,995	335,835	347,918	350,050
Malacca	152,955	180,213	195,676	201,166	195,903	189,706	173,487
N. Sembilan	215,132	211,355	207,542	215,269	205,297	206,372	210,108
Pahang	281,466	283,606	293,311	300,487	302,129	298,772	299,178
Perak	363,741	363,597	368,738	367,093	377,365	384,341	377,398
Perlis	68,017	73,181	70,246	75,150	73,874	69,824	70,122
Penang	218,842	225,120	231,094	247,947	241,736	243,293	224,142
Sabah	259,162	295,108	328,189	328,180	338,845	350,621	335,497
Sarawak	319,332	323,592	328,979	329,517	334,649	329,340	322,881
Selangor	589,598	569,505	608,463	660,879	648,519	626,662	633,860
Terengganu	237,501	229,313	235,063	234,307	240,899	245,808	239,853
Wilayah Persekutuan	2,026,888	2,238,812	2,092,768	2,568,984	2,375,320	2,179,011	2,140,945
Ibu Pejabat	762,512	924,941	945,522	948,906	931,554	1,216,298	907,060
Total (million)	6,600,041	7,040,309	7,028,715	7,609,204	7,409,547	7,491,191	7,066,222

Source: *Suruhanjaya Koperasi Malaysia (2018b)*

The table above illustrates the membership of the Malaysian population in the cooperatives movement. Despite a slight fall in 2012, 2014 and 2016, there has been a positive increase in membership numbers in all states from 2010 to 2016. In 2010, membership totaled 6.6 million people and increased to 7.1 million in 2016. Majority of members are registered in the Wilayah Persekutuan with a total of 2.1 million in 2016. While minority members are registered in the state of Perlis with a membership of 70,122 in 2016.

### 1.2.2 Registration of Cooperatives

The developments that occur in the sector can be seen through the achievements it has earned today. To date, the number of cooperatives in Malaysia has grown so rapidly. Such developments can be seen through the increasing number of cooperatives registered with SKM each year. The number of cooperative registration in Malaysia also recorded a positive increase from year to year. Table 2 shows the number of cooperatives registered by states of Malaysia from year 2010 to 2016.

**Table 2**

Number of Cooperatives Registered by States of Malaysia from year 2010 to 2016

States	2010	2011	2012	2013	2014	2015	2016
Johor	789	877	955	1,039	1,151	1,255	1,324
Kedah	703	741	801	868	920	922	961
Kelantan	546	600	649	685	736	783	818
Malacca	276	334	385	424	452	472	476
N. Sembilan	466	500	549	583	648	691	743
Pahang	608	680	777	835	927	1,002	1,066
Perak	807	906	1,037	1,147	1,249	1,352	1,449
Perlis	136	146	160	166	175	191	198
Penang	505	552	591	631	677	725	725
Sabah	728	844	978	1,062	1,150	1,279	1,374
Sarawak	685	767	836	883	917	931	978
Selangor	863	961	1,089	1,216	1,394	1,574	1,659
Terengganu	450	491	523	566	609	650	685
Wilayah Persekutuan Ibu Pejabat	582 2	673 2	755 2	807 2	864 2	940 2	970 2
Total	8,146	9,074	10,087	10,914	11,871	12,769	13,428

Source: Suruhanjaya Koperasi Malaysia (2018b)

Data from the table above illustrates the number of cooperatives registered in each state of Malaysia. All states have recorded an increase in the number of cooperatives registrations each year from 2010 to 2016. Selangor recorded the highest number of cooperative registration until 2016 with a total of 1,659 units, followed by Perak (1,449 units), Sabah (1,374 units), Johor (1,324 units) and Pahang (1,066 units). Overall, the number of cooperatives has increased from 8,146 units in 2010 to almost double to 13,428 units in 2016 (SKM, 2018b).

### 1.2.3 Business Functions

The cooperative movement has grown so rapidly in the present day. The increasing number of cooperatives involves various areas of business activities. Cooperatives are involved in various business functions for the well-being and welfare of its members. The fields include banking, credit, agriculture, housing, industrial, consumer, development, transportation and services. From the statistic, positive figures were recorded in most business functions. Only banking remained with two cooperatives during the period. Detailed data is shown in Table 3 as below.

**Table 3**

Total Number of Cooperatives by Business Functions from Year 2010 to 2016

Business Functions	2010	2011	2012	2013	2014	2015	2016
1. Banking	2	2	2	2	2	2	2
2. Credit	613	589	588	589	597	597	590
3. Agriculture	1,441	1,798	2,148	2,324	2,553	2,746	2,891
4. Housing	118	134	159	180	217	255	286
5. Industrial	137	162	201	225	253	307	332
6. Consumer - Adult	1,731	1,920	2,172	2,393	2,609	2,772	2,877
- School	2,135	2,216	2,244	2,280	2,307	2,333	2,361
7. Development	134	151	163	173	196	222	238
8. Transportation	429	418	435	447	460	472	479
9. Services	1,406	1,684	1,975	2,301	2,677	3,063	3,372
Total	8,146	9,074	10,087	10,914	11,871	12,769	13,428

Source: Suruhanjaya Koperasi Malaysia (2018b)

Referring to the above table, large domination is clearly illustrated to a consumer-based business that includes both adult and school users. Its combination showed an increase of 3,866 units (1,731 and 2,135 units) in 2010 to 5,238 units (2,877 and 2,361 units) in 2016. The function of agriculture also



increased significantly from 1,441 units in 2010 to 2,891 units in 2016. The third function is services which also increased from 1,406 units in 2010 to 3,372 units in 2016. Despite the increase, there is an unchangeable business function or an inconsistent fluctuation. As for the banking function, no increase was recorded with the amount remaining to 2 firms. Meanwhile, the credit function fluctuated between 2010 (613 units), 2011 (589 units), 2012 (588 units), 2013 (589 units), 2014 (597 units), 2015 (597 units) and 2016 (590 units).

#### 1.2.4 Key Economic Indicators

Data derived from SKM measures the economic indicators of the cooperative sector covering the three main figures comprising share capital, total assets and firms' revenues. Report shows that steady trends and favorable growth have been demonstrated through the achievement from 2010 to 2016. Growth occurs in all aspects covering the increase number of share capital, total assets and firms' revenues. The details are shown in Table 4 as below.

**Table 4**  
Cooperatives Share Capital, Assets and Revenues from Year 2010 to 2016

Categories	2010	2011	2012	2013	2014	2015	2016
Share Capital (RM billion)	9.55	10.49	11.71	12.81	13.47	13.81	13.99
Assets (RM billion)	71.78	92.80	100.41	107.90	116.79	123.28	130.74
Revenues (RM billion)	9.53	23.09	31.10	32.97	34.95	33.56	39.66

Source: *Suruhanjaya Koperasi Malaysia (2018b)*

Based on the table above, growth rate in the number of share capital was positive as it increased from RM9.55 billion in 2010 to RM13.99 billion in 2016. The increase in total assets also occurred by nearly doubled from RM71.78 billion in 2010 to RM130.74 billion in 2016. For revenue, despite a slight fall in 2015, a substantial increase was generated by cooperatives more than four times to RM39.66 billion in 2016 as compared to RM9.53 billion in 2010.

Subsequently, Table 5 below shows the total share capital in detail by cooperative business functions for 2010, 2012, 2014 and 2016.

**Table 5**  
Total Share Capital by Business Functions for Year 2010, 2012, 2014 & 2016 (RM Million)

No.	Business Functions	2010	2012	2014	2016
1	Banking	2,362.45	3,063.84	3,316.28	3,328.58
2	Credit	4,507.39	5,051.82	5,606.84	6,181.41
3	Agriculture	388.62	493.45	604.86	656.96
4	Housing	162.41	183.91	218.42	199.74
5	Industrial	5.02	7.03	11.04	13.41
6	Consumer – Adult	212.53	250.21	312.15	412.60
	– School	18.92	20.99	23.72	24.81
7	Construction	12.66	38.01	59.61	35.23
8	Transportation	57.75	61.71	67.18	70.93
9	Services	1,819.43	2,541.09	3,247.96	3,068.18
	Total	9,547.17	11,712.07	13,468.06	13,991.85

Source: *Suruhanjaya Koperasi Malaysia (2018b)*

Based on the above table, the strength of members' participation in share capital ownership of cooperative movements in Malaysia today is in the function of credit and banking business. In 2010, both business functions involved large share capital with participation of 72 percent (47% of credit and 25% of banking) and in 2012 is 69 percent (43% of credit and 26% of banking). While in 2014 involving 67 percent of share



capital (42% credit and 25% of banking) and in 2016 is 68 percent (44% of credit and 24% of banking). Besides that, the third largest number of share capital ownership is the service sector while other functions do not show significant in that ownership.

Furthermore, Table 6 below presents the total assets of cooperatives according to business functions for 2010, 2012, 2014 and 2016.

**Table 6**

Total Assets by Business Functions for Year 2010, 2012, 2014 &amp; 2016 (RM Million)

No.	Business Functions	2010	2012	2014	2016
1	Banking	56,733.24	80,375.62	90,632.63	101,499.38
2	Credit/Financial	8,119.08	10,017.14	11,945.73	14,119.57
3	Agriculture	1,479.85	2,206.32	2,449.65	2,849.54
4	Housing	666.37	790.01	1,032.35	1,035.10
5	Industrial	51.18	66.17	78.77	78.72
6	Consumer – Adult	742.37	975.57	1,369.22	1,653.15
	– School	200.20	244.58	284.75	326.85
7	Construction	55.20	288.88	414.23	330.11
8	Transportation	270.50	286.85	323.30	332.41
9	Services	3,466.70	5,155.06	8,257.06	8,515.86
Total (RM)		71,784.69	100,406.19	116,787.70	130,740.68

Source: *Suruhanjaya Koperasi Malaysia (2018b)*

The table above refers to the overall data of total assets owned by the cooperatives and separated by business function for a four-year record comprising 2010, 2012, 2014 and 2016. It is found that the banking function has a very large asset compared to other businesses of RM56,733.24 million in 2010 rising to RM80,375.62 million (2012), RM90,632.63 million (2014) and RM101,499.38 million (2016). The amount represents 79 percent of total assets in 2010, 80 percent in 2012 and 78 percent in 2014 and also in 2016. The second business function is credit with asset ownership of RM8,119.08 million in 2010, RM10,017.14 million in 2012, RM11,945.73 million in 2014 and RM14,119.57 million in 2016. Other businesses do not have a substantial amount of assets except for services and agriculture only.

Next, Table 7 illustrates the total revenues of cooperatives for 2010, 2013 and 2016. Data is provided in detail by business functions carried out by cooperatives in Malaysia.

**Table 7**

Total Revenues by Business Functions for Year 2010, 2012, 2014 &amp; 2016 (RM Million)

No.	Business Functions	2010	2012	2014	2016
1	Banking	4,922.57	6,365.07	6,093.65	28,716.40
2	Credit	1,326.81	1,469.43	1,878.66	5,401.39
3	Agriculture	600.46	902.29	2,823.10	1,185.11
4	Housing	49.08	208.31	530.45	224.86
5	Industrial	32.64	31.35	35.97	36.37
6	Consumer – Adult	526.49	735.42	804.85	980.90
	– School	236.99	285.21	321.90	359.17
7	Construction	48.81	65.38	87.47	58.23
8	Transportation	562.36	659.73	700.67	605.51
9	Services	1,226.88	20,373.52	21,674.21	2,096.69
Total		9,533.10	31,095.70	34,950.98	39,664.63

Source: *Suruhanjaya Koperasi Malaysia (2018b)*

As illustrated in the table above, the majority of cooperative revenues is contributed from banking and credit businesses. In 2010, banking earned RM4,922.57 million in revenues, accounting for 52 percent and credit of RM1,326.81 million comprising 14 percent of total cooperative revenues. Both of these functions



generated 66 percent to total cooperatives revenues in 2010. As of 2016, banking earned RM28,716.40 million (72%) and credit earned RM5,401.39 million (14%) in revenues with both amounted 86 percent from total revenues. The third largest function is service with turnover of RM1,226.88 million in 2010, RM20,373.52 million in 2012, RM21,674.21 million in 2014 and RM2,096.69 million in 2016. The fluctuations in revenue of the service function occurred due to the re-alignment of cooperative registration and business functions. Overall, the performance of cooperative revenues increased significantly from RM9,533.10 million in 2010 to RM31,095.70 million in 2012, RM34,950.98 million in 2014 and RM39,664.63 million in 2016.

## 2.0 Issues And Challenges In Cooperatives

The key issue that was warmly discussed was related to business performance among cooperatives in Malaysia. Additionally, the factors involved and may affect the business performance of cooperative are also important to be identified. The issues that exist provide a challenge for cooperative to compete in the business environment they are exploring. Challenges are also faced in the company's strategic decision-making by cooperatives to compete with the private sector (Rosmimah & Herwina, 2012). This is due to dynamics in the business environment. Some of the issues discussed were also highlighted in the effectiveness of DKN 2002-2010 implementation. Among them are lack of entrepreneurial orientation, focus on markets and marketing, and lack of professional management (SKM, 2010). The success of the cooperative in addressing these issues can enable them to move more efficiently in the future. These issues have challenged cooperatives to strive in order to improve their business performance.

### 2.1 Business Performance

Business performance issues continue to haunt the country's cooperatives movement (Azmah & Fatimah, 2008; Mahazril, Hafizah & Zuraini, 2012). This issue can illustrate the effectiveness of management in cooperatives (Couderc & Marchini, 2011). In general, cooperatives business performance should be in a stable and resilient position on the economic crisis because of their business activities supported by its members. It is supported by ICA (2009) that found cooperative resilience arising as their main activity is carried out in real economy through the involvement of members. In addition, cooperatives are also said to be vulnerable to the economic crisis because of its primary source of funding generated through internal funds ie the share capital of its members (Halim, 2004).

In addition, cooperatives are also said to have resilience to the economic crisis. That is because of its main sources of funding generated through internal funds, which are the capital of its members (Halim, 2004). In Malaysia, the cooperatives sector should have been in a high position in the economy. This is a string of the objective of its establishment based on the working together between members including the economic, welfare and social aspects (Rahaiah, 2006; Musa, Abdul Ghani & Ahmad, 2015).

However, cooperatives in Malaysia are not performing a favorable business performance. The business performance issues of the cooperative sector can be examined in detail through a number of issues including; i) contribution to economic development, ii) performance imbalance between cooperative size, and iii) performance inequality between business functions. All these things challenge cooperatives to work harder and improve themselves in order to increase their business performance.

#### 2.1.1 Contribution to Economic Development

As seen to abroad, their cooperatives have been proven that the business activities are capable of achieving high performance and contributing significantly to the national economic development. For example, statistics by ICA (2018b) reported pharmaceutical cooperatives in Belgium have managed to capture 19.5% of the market share in the country. In France, retail banking has dominated the market by 60%, agricultural production and food managed to dominate by 40% and retail sales managed to dominate by 25% of its



market. Subsequently in New Zealand, the cooperatives market share in the dairy product is 95%, the meat market by 70% and the retail market by 62%. While in Singapore, their consumer cooperatives managed to dominate 55% in the supermarket business (ICA, 2018b).

Compared with Malaysia, it is astonishing that so far the position of the cooperative sector in the economy is very low, contributing almost 3.7% to GDP in 2015 (SKM, 2016). This contrasts with the contribution of cooperatives to the GDP such as Kenya which accounted for 45%, Vietnam by 8.6% and Iran by 6% (ICA, 2018b). In addition, the government's allocated management expenditure to the cooperative sector involves a substantial amount comprising an allocation of RM77.61 million in 2009 and RM76.50 million in 2012 (SKM, 2018b).

Despite the 10% contribution target to GDP by 2020, the figure is seen to be difficult to achieve in current performance conditions. Cumulatively, cooperative members as users and owners need to show sincerity by helping to achieve the best possible performance for the sustainability of their cooperatives. Only with the intention of assisting fellow members, all the challenges in the cooperative business can be overcome and thus shift the cooperative to a better level.

### 2.1.2 Performance Imbalance between Cooperatives Size

The development of the cooperative sector can also be seen in terms of growth in the number of firms, the number of membership, the share capital, the number of assets it owns and the revenue it earns. The 2016 statistics as shown in Table 8 below detail all the data according to the size or cluster of the cooperatives.

**Table 8**  
Summary of General Cooperatives Statistics by Size (Cluster) for 2016

Size (Cluster)	No. of Cooperatives	No. of Memberships	Share Capital (RM Million)	Assets (RM Million)	Revenues (RM Million)
Large	258	2,986,286	12,181.89	125,341.71	37,550.56
Medium	571	824,449	1,144.40	2,991.83	1,260.36
Small	1,407	1,048,674	323.31	1,247.40	570.32
Micro	11,192	2,206,813	342.24	1,159.74	283.39
Total	13,428	7,066,222	13,991.85	130,740.68	39,664.63

Source: Suruhanjaya Koperasi Malaysia (2018b)

However, if observed from the table above, it is found that there are an imbalance in the data reported compared to each size of the cooperative. A large-sized cooperative amounting to 258 or only 1.9% of the total cooperatives in Malaysia earned a huge sum with membership of 42.3%, share capital of 87.1%, total assets of 95.9% and revenues of 94.7%. The achievements are very contra with other sizeable cooperatives such as medium, small and micro. As an example of a micro-sized cooperative of 31.2% members only acquired share capital of 2.4%, total assets of 0.9% and revenues of 0.7% of total.

### 2.1.3 Performance Inequality between Business Functions

Business performance is also significantly different from the perspective of business functions among the cooperatives. The inequality of the performance is shown in table 9 below.



**Table 9**

Summary of General Cooperatives Statistics by Business Functions for 2016

No	Business Functions	No. of Cooperatives	No. of Memberships	Share Capital (RM Million)	Assets (RM Million)	Revenue (RM Million)
1	Banking	2	971,613	3,328.58	101,499.38	28,716.40
2	Credit	590	1,317,256	6,181.41	14,119.57	5,401.39
3	Agriculture	2,891	738,800	656.96	2,849.54	1,185.11
4	Housing	286	156,879	199.74	1,035.10	224.86
5	Industrial	332	19,806	13.41	78.72	36.37
6	Consumer - Adult	2,877	565,685	412.60	1,653.15	980.90
	- School	2,361	2,020,843	24.81	326.85	359.17
7	Construction	238	98,681	35.23	330.11	58.23
8	Transportation	479	147,233	70.93	332.41	605.51
9	Services	3,372	1,029,426	3,068.18	8,515.86	2,096.69
	Total	13,428	7,066,222	13,991.85	130,740.68	39,664.63

Source: Suruhanjaya Koperasi Malaysia (2018b)

As shown in the table above, performance varies from all business functions, including banking, credit, agriculture, housing, industrial, consumer, construction, transportation and services. The banking function which has 2 cooperatives and total membership of 13.8% has dominated the economic indicators with 23.7% in share capital, 77.6% in total assets and 72.4% in total revenues. The figure is very large compared to other business functions such as services, agriculture and others. For example, the services sector with the largest number of cooperatives; 3,372 or 25.1% of the total number of cooperatives merely acquired share capital of 21.9%, total assets of 6.5% and total income of 5.3%. Other business functions do not show significant turnover performance, particularly from industrial and construction functions. These small numbers are a challenge for them to work harder in improving their performance to be in line with their banking and credit functions in the future.

## 2.2 Factors Related to Business Performance

There are various factors that may affect the firm's business performance. Nevertheless, several factors identified in the study of the effectiveness of the national cooperatives policy (DKN) as reported by SKM (2010) are entrepreneurial-oriented behavior, market and marketing-oriented focus and the empowerment of involvement and participation of cooperative members.

### 2.2.1 Entrepreneurial Orientation

Issues involving entrepreneurial orientation behavior and practice in firms have the potential to affect the fluctuations in business performance. This issue may affect to business performance of cooperatives in this country (Norwatim, 2011; Rashidah, 2012). Cooperatives should be able to focus on the aspect of self-strength through good entrepreneurial practice and thereby gain profit. According to Azmah and Fatimah (2008), cooperatives such as *Bank Kerjasama Rakyat Malaysia* (Bank Rakyat) and *Koperasi Permodalan Felda Berhad* (KPFEB) have been well managed and competitive through a professional management team. High entrepreneurship practices have made the cooperative been aggressive, innovative, creative and promoting good business strategy in the dynamic business environment (Azmah & Fatimah, 2008).

Norwatim's study (2011) on one of the dimensions of entrepreneurial orientation, the risk-taking practice found that the low performance earned by cooperatives is closely related to that practice. Most of the related cooperatives adopt a simple and highly cautious risk-taking stage in order not to fall into business problems (Norwatim, 2011). However, even though cooperatives have the potential and capabilities in the business, various problems that arise may affect their business performance. On the other hand, Azmah and Fatimah (2008) found that the serious problems faced by cooperatives were due to incompetence in management and lack in entrepreneurial practice.



### 2.2.2 Market and Marketing Orientation

The next issue involves market and marketing orientation practices in the business. Most cooperatives in the country do not pay attention to the market where they operate and lack of focus on strategic marketing practices (Abd. Rahim, 2006; Musa, Abdul Ghani & Ahmad, 2015; Rashidah, 2012). This issue is constantly circling the cooperatives movement because cooperatives tend to operate in a limited geographical environment. According to Manfredo and Richards (2007), limited geographical environments make their market limited to a small profit margin as well as tied to certain products. This is due to the lack of diversity over other types of business (Manfredo & Richards, 2007).

Abd. Rahim (2006) in his study on agricultural cooperatives in Malaysia found that limited products and markets led to small scale economies. This makes the firm lack of competitiveness to market (Abd Rahim, 2006). Furthermore, cooperatives are not gaining yield in the broad market (Manfredo & Richards, 2007). As a result, inefficiency occurs with uneconomical operations and inefficient in marketing systems (Abd. Rahim, 2006) although the cooperatives business is said to have survived during the economic crisis as a result of the activities of its members in the local environment (ICA, 2009).

Besides that, the firm's focus on customer-oriented market strategies is important (Brik, Rettab & Mellahi, 2011). Through strong focus on customers, the establishment of marketing premises is one of the main things that firms can implement. It can increase customer access to the firm's market of products. The number of sufficient premises can expand the market of a product. It further facilitates the cooperatives in market their products to customers more effectively (Abd Rahim, 2006). Additionally, the high dependence on the wholesale channel led to lower product market prices (Abd. Rahim, 2006). This indirectly results in low yield returns to the cooperatives itself. Thus, cooperatives are advised to immediately change in their efforts to continue the survival of the firm as a result of the rapid evolution of the market (Chaddad & Cook, 2004; Cook, 1995). Cook and Plunkett (2006) suggested that the need for cooperatives to change from traditional management to market-oriented ones. They are also recommend that cooperatives governance to focus on the profit-taking strategy rather than the immediate distribution of excess value to members.

### 2.2.3 Participation of Members

Issue involving the level of members' participation in the activities undertaken by the cooperatives need to be focused by management and members of cooperatives. Generally, the findings have found a parallel and positive relationship between the level of participation of members with the business performance of a cooperative (Amini & Ramezani, 2008; Laursen, Karantininis & Bhuyan, 2008). This picture showed the link between the participation of the population in cooperative activities in a country and the improvement in the performance of the cooperative and its contribution to the country's economic growth. This can be seen in statistics reported by ICA (2018b) with countries such as Kenya involving 20% of its population contributing to 45% in the country's GDP, New Zealand involving 40% of its population with 22% contribution to GDP), and Vietnam with a contribution of 8.6% to GDP.

But that does not look like a positive picture in the relationship between members' level of participation and the improvement of cooperative business performance in Malaysia. Empirically, some studies have found reverse findings (such as Ernita, 2012; Musa, Abdul Ghani & Ahmad, 2015; Rosmimah & Herwina, 2012). Report have shown that cooperatives' membership in Malaysia amounted participation of 26% in 2008 and 27% in 2009 from population (ICA, 2018b). However, the figures did not bring a significant increase in the annual performance of the cooperative. The contribution of the sector to the country's GDP is very small by just 1% in 2009, almost 2% in 2012 and 3.7% in 2015 (SKM, 2016).

Thus, there is a question of the extent of the participation of large cooperative members with the improvement in their business performance?



### 3.0 Conclusions And Future Directions

Generally, government plays an enormous role in assisting the development of cooperatives in Malaysia. The role is clearly illustrated by the objective of setting up several government agencies such as Suruhanjaya Koperasi Malaysia (SKM) and Maktab Koperasi Malaysia (MKM). Both organizations play a role in assisting cooperatives in the areas of organizational development, including financial and grants, management services and human resource training. In addition, the support is also given to Angkatan Koperasi Nasional (ANGKASA) as the top cooperative that houses all cooperatives in Malaysia. All government assistance and support are aimed at raising the cooperatives to a higher level of performance. As a result, development in the country's economy has also increased with progress in the Malaysian cooperative sector.

The first National Cooperative Policy covering 2002 to 2010 has already passed. Findings from these policies have found some things to keep in mind. SKM (2010) reported that the most important thing is the need for cooperatives to be entrepreneurship, creative and strategic in management, focusing on markets and marketing and empower the roles and participation of members in cooperative activities. The success stories of the country's best cooperatives such as *Bank Kerjasama Rakyat Malaysia* (Bank Rakyat) and *Koperasi Permodalan Felda Berhad* (KPFEB) need to be benchmarked, to be scrutinized and guided in improving performance for their respective cooperatives. This is a string of Azmah and Fatimah (2008) who found that high entrepreneurial practice in the management of both cooperatives has made them been aggressive, innovative, creative and adopt the right business strategy.

Another thing about "Bank Rakyat" is regarding clear marketing focus with market segmentation to civil servants. Business operations are largely made with civil servants besides private workers. Firstly, they need to register as a member before applying for personal loans and enjoying lower loan interest. As a result, large member's participation and share capital contributions are able to collect internal finances in operating their businesses. Ernita (2012) in her study on financial cooperatives in Indonesia also found a link between the support and participation of large members with the performance of the cooperatives involved.

Despite the government assistance in the form of grants and easy lending, major financing of cooperative activities is obtained internally through the collection of capital resources and members' shares (Rashidah, 2012). Rashidah (2012) added that some of the profits earned by the cooperatives are collected to fund the training and development programs of cooperatives. All planning and activities organized by a cooperative are intended for the benefit of its own members. In this regard, strong participation and support from each member is crucial in creating the best services and facilities for them. Participation from a lot of members is able to strengthen cooperative positions both in terms of ideas, workforce and finance. Hence, the strength of a cooperative can be built and thus drive to high performance in the future.

From an academic point of view, study towards cooperative sector needs to be carried out extensively due to limited studies conducted with most studies focusing on the theoretical development stage (such as Albaek & Schultz, 1998; Cook & Iliopoulos, 1999) and firm development (such as Arcand, Bayad & Fabi, 2002; Gagliardi, 2009). Future studies should focus on how to improve the performance of cooperative businesses towards the sustainability of their operations. Certain aspects also need to be studied especially on the aspects of entrepreneurial orientation, market and marketing orientation and participation of members in organizational activities. Existing literature reviewing business performance and the factors discussed above are focused more on the private sector than cooperatives especially in the manufacturing and services industries (such as Day, 1994; Kohli & Jaworski, 1990; Kollmann & Stockmann, 2014; Lumpkin & Dess, 1996; Sharma & Dave, 2011).

Studies in the cooperative sector involving entrepreneurial aspects are like Saroni et al. (2001) while market aspects such as Mikami and Tanaka (2008) and Soboh, Lansink, Giesen and van Dijk (2009). However, these studies do not examine the factors of entrepreneurship and market strategies in the context of the firm's strategic orientation. On the other hand, studies on cooperatives related to existing discussions are still at an early stage. Focus has been made on entrepreneurial behaviors such as innovativeness,



proactiveness, autonomy and competitive aggressiveness (Musa, 2014; Musa et al., 2014) and risk taking (Musa et al., 2014; Norwatim, 2011). While for market orientation, studies focus toward the orientation of customer and competitor and also coordination between departments (Musa, 2014; Musa et al., 2015) and members' participation (Ernita, 2012; Karunakaran, Borji & Sherefa, 2011; Musa et al., 2015).

## REFERENCES

- Abd. Rahim, A. (2006). Agricultural cooperatives in Malaysia: Innovations and opportunities in the process of transition towards the 21st century model. Paper presented at *FFTC-NACF International Seminar on Agricultural Cooperatives in Asia: Innovations and Opportunities in the 21st Century* on 11-15 September 2006, (pp. 1-33). Seoul, Korea.
- Albaek, S., & Schultz, C. (1998). On the relative advantage of cooperatives. *Economic Letters*, 59, 397-401.
- Amini, A. M., & Ramezani, M. (2008). Investigating the success factors of poultry growers' co-operatives in Iran's western provinces. *World Applied Sciences Journal*, 5(1), 81-87.
- Arcand, M., Bayad, M., & Fabi, B. (2002). L'effet des pratiques de gestion des ressources humaines sur l'efficacite organisationnelle des cooperatives financie' res canadiennes. *Annals of Public and Cooperative Economics*, 73(2), 215-240.
- Azmah, O., & Fatimah, K. (2008). Enhancing co-operative movement to achieve Malaysia's development goals. Working paper presented at *ICA Research Conference: The Role of Co-operatives in Sustaining Development and Fostering Social Responsibility* on 16-18 October 2008. Riva del Garda, Trento, Italy.
- Brik, A. B., Rettab, B., & Mellahi, K. (2011). Market orientation, corporate social responsibility, and business performance. *Journal of Business Ethics*, 99, 307-324.
- Chaddad, F., & Cook, M. (2004). "The economics of organization structure changes: a US perspective on demutualization". *Annals of Public and Cooperative Economics*, 75(4), 575-594.
- Cook, M. L. (1995). "The future of U.S. agricultural cooperatives: A neo-institutional approach". *American Journal of Agricultural Economics*, 77(December), 1153-1159.
- Cook, M. L., & Iliopoulos, C. (1999). Beginning to inform the theory of the cooperative firm: Emergence of the new generation cooperative. *The Finnish Journal of Business Economics, LTA 4/99*, 525-535.
- Cook, M. L., & Plunkett, B. (2006), "Collective entrepreneurship: An emerging phenomenon in producer-owned organizations", *Journal of Agricultural and Applied Economics*, 38(2), 421-8.
- Couderc, J-P., & Marchini, A. (2011). "Governance, commercial strategies and performances of wine cooperatives: An analysis of Italian and French wine producing regions". *International Journal of Wine Business Research*, 23(3), 235-257.
- Day, G. (1994). The capabilities of market-driven organizations. *Journal of Marketing*, 58, 37-52.
- Ernita. (2012). *Faktor-faktor yang mempengaruhi prestasi koperasi menggunakan konsep balanced scorecard dengan penyertaan ahli sebagai moderator*. (Unpublished PhD thesis). Universiti Utara Malaysia, Sintok, Kedah.
- Gagliardi, F. (2009). Financial development and the growth of cooperative firms. *Small Bus Econ*, 32, 439-464.
- Halim, W. (2004, April), "Getting to know cooperatives". *Malaysian Business*, Accessed from [http://findarticles.com/p/articles/mi\\_qn6207/](http://findarticles.com/p/articles/mi_qn6207/)
- Hayati, M. S., & Ismail, R. (2007). Participation of women in selected co-operatives in Malaysia. *Malaysian Journal of Co-operative Management*, 3, 18-31.
- Jamilah, D., Yusman, Y., Hamizah, M., Siti Maimunah, J., Syarifah Rohaya, W., Mohd Haswardi, M., et al. (2008). *Kajian profil koperasi di negeri Sarawak dan potensi untuk dimajukan dalam perniagaan*. Petaling Jaya, Selangor: Maktab Koperasi Malaysia.



- Karunakaran, R., Borji, B., & Sherefa, A. (2011). Determinants of co-operatives members' participation in input and output marketing by multipurpose co-operatives: An empirical analysis in Tigray Region, Ethiopia. *Malaysian Journal of Co-operative Studies*, 7, 15-35.
- Kohli, A., & Jaworski, B. (1990). Market orientation: The construct, research propositions and managerial implications. *Journal of Marketing*, 54(2), 1-18.
- Kollmann, T., & Stockmann, C. (2014). Filling the entrepreneurial orientation-performance gap: The mediating effects of exploratory and exploitative innovation. *Entrepreneurship: Theory & Practice*, 38(5), 1001-1026.
- Laursen, C. V., Karantininis, K., & Bhuyan, S. (2008). Organizational characteristics and member participation in agricultural cooperatives: Evidence from modern Danish cooperatives. Paper presented at seminar "The role of the cooperatives in the European agro-food system" on 28-30 May 2008. Bologna, Italy.
- Lumpkin, G., & Dess, G. (1996). Clarifying the entrepreneurial orientation construct and linking it to performance. *The Academy of Management Review*, 21(1), 135-172.
- Mahazril, A.Y., Hafizah, H.A.K., & Zuraini, Y. (2012). Factors affecting cooperatives' performance in relation to strategic planning and members' participation. *Procedia-Social and Behavioral Sciences*, 65, 100-105.
- Majlis Penasihat Ekonomi Negara. (2010). *Model ekonomi baru untuk Malaysia: Bahagian 1 - Hala tuju dasar strategik*. Putrajaya: Majlis Penasihat Ekonomi Negara, Jabatan Perdana Menteri. Accessed from <http://www.neac.gov.my>.
- Manfredo, M. R., & Richards, T. J. (2007). Cooperatives risk management, rationale, and effectiveness: The case of dairy cooperatives. *Agricultural Finance Review*, 311-339.
- Mangsor, S. (2010). *Dasar koperasi negara 2011-2020*. Kuala Lumpur: Suruhanjaya Koperasi Malaysia. Accessed from <http://www.skm.gov.my>
- Mikami, K., & Tanaka, S. (2008). Food processing business and agriculture cooperatives in Japan: Market power and asymmetric information. *Asian Economic Journal*, 22(1), 83-107.
- Mohamed Khaled, N. (2007). *Keusahawanan: Dasar, pembangunan dan pembudayaan* (Vol. 1). Putrajaya, Malaysia: Kementerian Pembangunan Usahawan dan Koperasi.
- Musa, D. (2014). *Kesan Penyederhana Orientasi Pasaran dan Penyertaan Ahli-Ahli terhadap Hubungan antara Orientasi Keusahawanan dan Prestasi Perniagaan Firma Koperasi*. (Unpublished PhD Thesis). University Utara Malaysia: Kedah, Malaysia.
- Musa, D., Abdul Ghani, A., & Ahmad, S. (2014). Linking Entrepreneurial Orientation and Business Performance: The Examination toward Performance of Cooperatives Firms in Northern Region of Peninsular Malaysia. *International Journal of Business and Technopreneurship*, 4(2), 247-264.
- Musa, D., Abdul Ghani, A., & Ahmad, S. (2015). The Effects of Member Participation and Market Orientation on Business Performance of Cooperatives. *International Journal of Entrepreneurship and Small & Medium Enterprise*, 2, 147-171.
- Norwatim, A. L. (2011). Tahap pengambilan risiko dalam gerakan koperasi di Malaysia. *Malaysian Journal of Co-operative Studies*, 7, 103-118.
- Rahaiah, B. (2006). *Penghayatan dan amalan bekerja bersama-sama demi manfaat bersama*. Pelancar Edisi Januari 2006. Petaling Jaya: ANGKASA.
- Rashidah, A. G. (2012). *Perkukuh peranan koperasi Malaysia dalam pembangunan negara*. Putrajaya: Kementerian Perdagangan Dalam Negeri, Koperasi dan Kepenggunaan.
- Rosmimah, M.R., & Herwina, R. (2012). Location as a strategic retail decision: The case of the retail cooperative. *International Journal of Commerce and Management*, 22(2), 152-158.
- Saroni, J., Raja Maimon, R. Y., Sushila, D., Jamilah, D., Nurizah, N., & Nuraesyah, S. (2001). *Ciri-ciri keusahawanan dan amalan pengurusan di kalangan pengurus-pengurus koperasi di Malaysia: Suatu perbandingan di antara koperasi berjaya dengan koperasi yang kurang berjaya*. Petaling Jaya, Selangor: Maktab Koperasi Malaysia.



- Sharma, A., & Dave, S. (2011). Entrepreneurial orientation: Performance level. *SCMS Journal of Indian Management*, 43-52.
- Soboh, R., Lansink, A., Giesen, G., & van Dijk, G. (2009). Performance measurement of the agricultural marketing cooperatives: The gap between theory and practice. *Review of Agricultural Economics*, 31(3), 446-469.
- Suruhanjaya Koperasi Malaysia. (2010). *Dasar Koperasi Negara 2011-2020*. Kuala Lumpur: Suruhanjaya Koperasi Malaysia.
- Suruhanjaya Koperasi Malaysia (2016). *Koperasi catat perolehan RM37 bilion untuk KDNK*. Accessed from <https://www.skm.gov.my/index.php/my/april-2016/1254-koperasi-catat-perolehan-rm37-bilion-untuk-kdnk>.
- Suruhanjaya Koperasi Malaysia. (2018a). *Sejarah permulaan gerakan koperasi di Malaysia*. Accessed from <http://www.skm.gov.my/sejarah?>
- Suruhanjaya Koperasi Malaysia. (2018b). *Statistik tahunan gerakan koperasi*. Accessed from <http://www.skm.gov.my/web/guest/statistik>
- The International Cooperative Alliance. (2009). *ICA Annual Report 2007/2008*. Accessed from <http://ica.coop/en/search/annual%20report>.
- The International Cooperative Alliance. (2018a). *Co-operative history*. Accessed from <http://www.ica.coop/coop/history.html>.
- The International Cooperative Alliance. (2018b). *Statistical information on the co-operative movement*. Accessed from <http://ica.coop/coop/statistics.html>.