

# CO-OPERATIVES AS INDICATOR OF ORGANIZATIONAL INTEGRITY

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## ABSTRACT

*This study addresses the question of how retail co-operatives project their stature as socially responsible co-operatives through their corporate culture and their business ability. Using integrity as the proxy to such projection, the link between integrity and the corporate culture and integrity and business abilities are assessed. The findings of this study confirmed such relationships and further illustrate how integrity is deemed crucial to the image of the co-operatives. Although this study is just an extension of another study on retail co-operatives, it nevertheless established how co-operatives view their positions as socially responsible entities and how important it is for the co-operatives to constantly display their actions as being efforts that will allow their members and the public to perceive them positively.*

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## INTRODUCTION

Co-operatives are social enterprises that are formed and owned by a group of individuals for the purpose of improving their standard of living. The underlying philosophy of co-operatives is essentially service and the well-being of members and as such, co-operatives are non profit-oriented and will always put the welfare of the members as a priority when making key decisions (Tchami, 2007). Most co-operatives are governed by seven co-operative principles that have been universally accepted and adopted by the International Co-operative Alliance. The principles are voluntary and included open membership; democratic member control; member economic participation; autonomy and independence; education, training and information; co-operation among co-operatives; and concern for the

community. It is this underlying philosophy that has guided the movement of co-operatives in Malaysia.

Today, the integrity of the co-operative movement in preserving its concept and ideology is being challenged by current trends in the area of information and communications technology (ICT), impact of globalization and liberalization of trade, deregulation and changes in national and global policies. The world has become very competitive for the co-operatives and for those that are operating numerous business ventures as their main source of revenue, the need to uphold the welfare of the members have become more challenging. The business world has never incorporated welfare and autonomic rule as key ingredients to the achievement of high profits. Indeed, business demands and the core responsibility of the co-operatives are at extreme ends and this may prove to be a challenge to those co-operatives upholding the core principles of their existence. Co-operatives also face challenges in improving their stature as well organized co-operatives and the quality of services and products to members. At the same time, they face the challenge of competing with the private sector in a fair and competitive environment.

Challenged by such environmental demands, co-operatives are using their formal entities as means of displaying their integrity. With the co-operative label, these organizations are persuading the public that their existences are solely for the welfare of their members. Although involved in many business undertakings, co-operatives are facing the dilemma of convincing the public that they are genuinely honest, are of high integrity and more importantly are carrying out tasks that have the good welfare of their members at heart. Yet, there are many co-operatives that have been disgraced because of dishonest dealings and mismanagement of funds. This proposed study addresses the extent that co-operatives in Malaysia are using their identities as tools of public relations and to display their image of integrity. Using co-operatives involved in the retail business as respondents, this study evaluates the extent of 'believability' that the co-operatives expressed through their roles as co-operatives. From the findings an assessment of organizational identities of co-operatives can be derived and this would assist the co-operatives to understand their roles better.

### **Corporate Integrity in the Co-operative Environment**

Brenkert (2004) asserts that corporations are organizations of humans and those organizations that are not dysfunctional and execute their functions in accordance to what they preach can be regarded as exhibiting some form of integrity. Yet, integrity itself is often subjective and contains many contradictions. This is

attributed to integrity being associated with the corporate leader or the CEOs and they are increasingly being held accountable for the behaviours of their corporate citizens (Harshbarger & Stringer, 2003). Being a corporate leader is doing what is right on several different levels or in several different ways. Being a corporate leader is about integrity, responsibility, and excellence, and perhaps even honour (Lennick & Kiel, 2005).

Integrity is also associated with the feeling of trust that one has over an organization. The way the organization acts, the way it executes its responsibilities and the way it projects itself are signs of integrity. High levels of corporate integrity will add significant value to the corporation both by avoiding costs and, more importantly, by avoiding damaging losses of brand equity, reputation, and marketplace influence—valuable sources of competitive advantage. In essence, high integrity is good for business (Harshbarger & Stringer, 2003, p.16).

Based on this premise, co-operatives with their underlying philosophy of working for the group and upholding the principle of goodliness for all, would want to be associated with high levels of integrity. It is more pertinent for co-operatives to display a sense of trust and building a sense of community of practices not only among the co-operative members but also with customers and other stakeholders. Kakuchi (1995) observes the Japanese co-operatives and reiterate how co-operatives are essentially obligated to the society in offering goods of high quality and of reasonable prices. Thus, co-operatives are social engines that actually worked for the good of the community and therefore integrity must be observed always.

A sense of integrity linked to trust is expected to be present within the co-operative work environment as co-operative leaders embark on business ventures aimed at attaining substantial returns which are to be shared among the members. The values and principles of co-operatives encourage them to develop a clear ethical stance and to emphasize meeting people's needs over maximizing profits for shareholders. In so doing, co-operatives work within democratic structures, which provide opportunities for input and involvement for key stakeholders (e.g., member-owners, management, employees, community), and which necessitate emphasis on transparency and accountability (Brown, 2006). Thus, the need to address issues relating to integrity as reflected by the way the co-operatives project themselves through their marketing efforts and their corporate culture will dictate the credibility of the co-operative and its adherence to its core principles of democracy, voluntarism and community values.

## Corporate Culture and Abilities – Linkage to Integrity

The values adhered by the co-operatives are also linked to the corporate culture they advocate. Goals, philosophies and principles are deemed to portray the construct of corporate culture (Melewar & Jenkins, 2002) and these are valid elements present within the co-operative environment. Corporate culture is the personality or the shared values of the organization (Koberg & Chusmir, 1987) and in the context of co-operatives, it is such culture that dictates the behaviour of the members and the co-operatives' 'way of life'. In assessing the corporate culture, one is able to assess the extent of adherence of the co-operative to the community. As a co-operative, their culture or the way the members and the leaders behave may reveal their true character. Thus, the construct of corporate culture is postulated to influence the extent of integrity especially within the co-operative scenario.

In line with this assumption, the co-operatives' ability to carry out their responsibilities diligently and with the highest level of integrity is the core of their existence. The behaviour of the members and the leaders would therefore project the image that the co-operative is indeed credible in their execution of responsibilities. Sternberg (1991) expresses the idea that corporate identity is all about values and these values direct operations and behaviours of the members. As co-operatives are also business entities, the ability in carrying out their businesses effectively and their keen sense of business acumen will indicate their level of social responsibility. It is therefore pertinent that the co-operatives' ability be given adequate attention in ensuring that the integrity of the co-operative is upheld. Thus, the co-operatives' ability is deemed as another construct which may well influence the level of integrity projected by co-operatives. Although there is no common designation and consensus as to how business performances should be evaluated especially for co-operatives, in this study, the co-operatives' business ability is assessed by operationalizing it through the elements of financial stability, business acumen and the strategic orientation adopted by the co-operatives in managing their businesses. This is decided based on the integration of several studies assessing performance and productivity (Jessup et al., 2004; Dragan, Howard & Reynolds, 2004) to provide a basic idea of how business abilities could be measured.

## THE STUDY

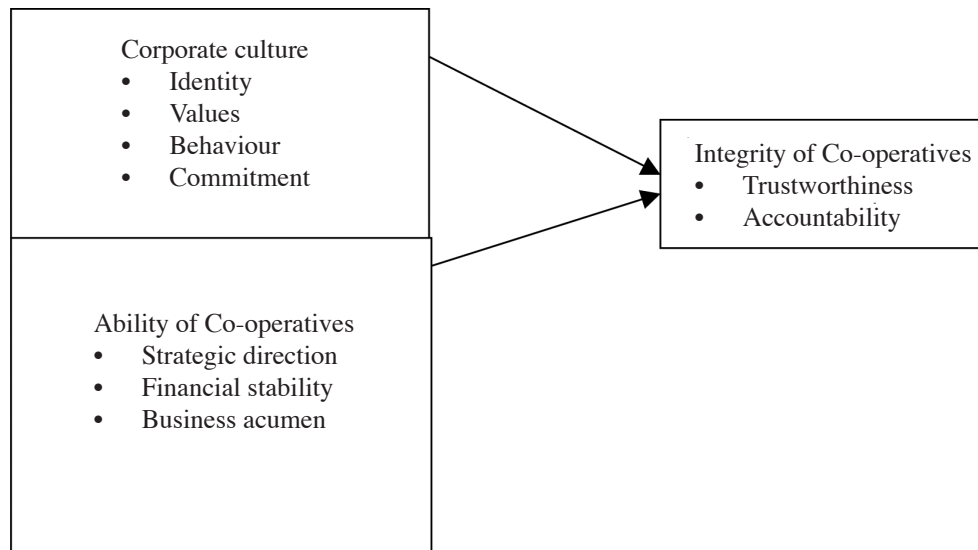
This study is an extraction of a bigger study conducted between two institutions, Universiti Teknologi MARA and the Co-operative College of Malaysia. The initial study sets out to assess the extent of involvement co-operatives have in the retail

business. From this study, delineation was made of those co-operatives already involved in the retail business and an evaluation of the extent of their efforts in projecting their image as a co-operative of high integrity was carried out. A total of 100 retail co-operatives were identified and the assessment of their activities associated with their display of integrity and corporate identities were carried out.

The objectives of the study therefore were to:

1. Determine the efforts exerted by the co-operatives in displaying their level of integrity.
2. Evaluate the correlation between the corporate culture of co-operatives with the level of integrity displayed.
3. Assess the relationship between the ability of the co-operatives to carry out their business ventures and the level of integrity projected through their marketing efforts.

The objectives serve as the basis to determine how co-operatives used their virtues as co-operatives to relate to the public their identities as highly responsible entities. The framework for this study is outlined in Figure 1 below.



**Figure 1:** Research Framework

## METHODOLOGY

Using the descriptive method of research, a questionnaire was developed as the main instrument for data collection. Based on the sampling frame of co-operatives registered with the Malaysian Co-operative Commission (Suruhanjaya Koperasi Malaysia) a total of 500 consumer co-operatives were identified. From the 500, co-operatives that were active and still operating were identified. A stratified random sampling was then carried out based on geographical zones of main cities in Malaysia and co-operatives from these zones were randomly selected. This list was then distributed to enumerators for the distribution of questionnaire. Enumerators met with any of the key management team of the co-operatives and they were asked to answer the questionnaire. Generally, the respondents were represented by any one of the board members, the managers or the secretary of the co-operatives. In total 100 co-operatives that were actively involved in the retail business answered the questionnaire.

Quantitative analysis followed after the data were keyed in, cleaned and processed accordingly. Descriptive analyses including correlation were then executed to answer the research objectives. The following discussion explains the findings and answers the research objectives.

## FINDINGS AND ANALYSIS

The analysis begins with an assessment of the reliability of the instrument used for the research. As such, reliability test was carried out to ensure that consistency of the research items was maintained at all times. Table 1, provides the Cronbach alpha values of the three main variables in the study. The highest values are noted for the variable of corporate culture with a Cronbach alpha of .8388 while the alpha value for integrity is .6480. Sekaran & Bougie (2010) asserts that alpha values of .6 and above can be considered as acceptable for most social research that is exploratory in nature. However, in this case, the items on abilities need further assessment as the consistency is rather low as depicted by the value of .4176.

**Table 1:** Reliability Analysis

Variables	No. of Items	Alpha values
Integrity	7	.6480
Corporate culture	6	.8388
Abilities	5	.4176

The low alpha value for the items on abilities may be attributed to the scarce number of items in assessing this variable. As asserted by Hattie (1985), Cronbach alpha values may increase with an increment of items. The measure of co-operative abilities may also be a complex construct where the co-operatives may view their abilities differently and not necessarily from a business perspective. Despite their involvement in the retail business, the co-operatives' abilities may be evaluated also from their social responsibility angle. As this was not inserted in measuring the variable, there appear to be some inconsistencies in the views of the respondents. Nevertheless, the items are still maintained for this exploratory study as it is only meant to gauge the co-operatives' initial assessment of their business acumen.

The descriptive analysis that follows is presented in Table 2 where the basic details of the co-operatives are described to gauge the background of the co-operatives. A majority (46%) of the co-operatives were experienced ones having been established before 1990. Such an indication of experience would imply their ability to manage their co-operatives and to understand the demands of ensuring that the co-operatives live up to its name. The number of members is also indicative of the co-operatives' strength. In total 35% of the co-operatives have members of 100 to 300 and 32% have more than 500 members. The size of the co-operatives is important to imply their abilities to carry out more demanding activities and therefore their business ventures are also likely to be more structured to gain adequate profits for dividend payments to all its members.

Another indicator of size is the amount of capital that the co-operatives possess. A total of 32% of the co-operatives owned more than RM100 thousand (USD31.3 thousand) of capital and by Malaysian standard, this is relatively large. Although the assets accumulated are not relatively large (54% reporting less than RM50,000 or USD15,600), this is typical of co-operatives that are not necessarily inclined to accumulate assets as this would imply fixed investments that may not directly benefit all the members.

In terms of the income generated by these co-operatives, a majority (69%) are reporting a relatively low income of less than RM100,000 (USD31,250) in the year ending 2008. What can be implied here is the tendency of the co-operatives to be involved in less risky ventures that may not be accumulating large amount of income for them. Those who are involved in retailing are generally relying on their members as their target customers. This is the scenario in Malaysia where no significant large retail co-operatives exist. Those that do report their involvement in the retail business

are basically targeting their members and these co-operatives are located in specific rural or suburban areas where there is a dearth of modern retail outlets. This is in fact a contribution of the co-operatives who feel that they are socially obligated to provide the retail services to their members.

**Table 2:** Co-operatives' Background

Details of Co-operatives		%
Year established	Before 1990	46.0
	1990-1995	20.0
	1996-2000	8.0
	2001-2005	16.0
	After 2005	10.0
Number of members	Less than 100	19.0
	100-300	35.0
	301-500	14.0
	More than 500	32.0
Amount of capital (2008)	Less than RM10K	29.0
	RM10K-RM50K	20.0
	RM51K-RM100K	19.0
	More than RM100K	32.0
Amount of assets (2008)	Less than RM50K	54.0
	RM50K-RM100K	12.0
	RM101K-RM500K	16.0
	More than RM500K	18.0
Net income (2008)	Less than RM100K	69.0
	RM100K-RM500K	15.0
	RM501K-RM1Million	10.0
	More than RM1 million	6.0

The analysis continues with a descriptive analysis on the efforts relating to the projection of integrity of the co-operatives. This includes items pertaining to the level of trustworthiness and accountability of the co-operatives based on their perceptive assessment. As indicated in Table 3, trustworthiness as displayed through the experiences of the board of directors, the knowledge of the staff/members who work in the retail outlets and the confidence that the customers as well as the members have toward the co-operatives are depicted by a mean of 4.76. On a scale of 1 (extremely



unimportant) to 6 (extremely important), a mean of 4.76 implies a relatively strong feelings which the co-operatives perceived as their projection of integrity. Accountability is another measure of integrity and this is evaluated through statements relating to the financial aspects of the co-operatives, the supporting element they provide and that are given to them as well as the acceptance of the members/public toward the co-operatives in general. With a mean of 4.66, this is again a reflection of the importance the co-operatives regard the projection of their integrity.

**Table 3:** Integrity Measure

		TRUSTWORTHINESS	ACCOUNTABILITY
N	Valid	100	100
	Missing	0	0
Mean		4.7600	4.6667
Std. Deviation		.57726	.72474

Scale: 1: Extremely unimportant – 6: Extremely important

Based on the framework developed, the analysis continues with the assessment of correlations between the variable of integrity and corporate culture as well as integrity and the ability of the co-operatives. As indicated in Table 4, there is a correlation between the culture of the co-operatives and their display of integrity as indicated by the correlation value of .495 for ability and .426 for integrity and corporate personality. Although the correlation values are rather weak, they do indicate the presence of relationship between integrity of the co-operative and how they project themselves through their personality or corporate culture. Their abilities also are indicative of how their integrity is being projected.

**Table 4:** Correlations

		INTEGRITY	CULTURE	ABILITY
INTEGRITY	Pearson Correlation	1	.426(**)	.495(**)
	Sig. (2-tailed)	.	.000	.000
	N	100	100	100
CULTURE	Pearson Correlation	.426(**)	1	.430(**)
	Sig. (2-tailed)	.000	.	.000
	N	100	100	100
ABILITY	Pearson Correlation	.495(**)	.430(**)	1
	Sig. (2-tailed)	.000	.000	.
	N	100	100	100

\*\* Correlation is significant at the 0.01 level (2-tailed).

The findings concur with the assumption that co-operatives view their integrity as an indicator of who they are and this is reflected through their corporate culture or their corporate personality. As co-operatives, their responsibility to their members and to the public in general needs to be visible through the way they behave and through their ability to carry out their functions well. In this study, co-operatives that are involved in the retail business are the focus of the research and their abilities to carry out their business operations effectively are also seen as a key element in ensuring that they are carrying their functions effectively as responsible co-operatives.

Further inferential analysis is carried out through regression analysis to determine to what extent the independent variables, corporate culture and abilities influence the integrity of the co-operatives. Table 5 provides the model summary of the regression analysis and the ANOVA output.

**Table 5:** Model Summary(c) and ANOVA

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.495(a)	.245	.237	.48590	
2	.549(b)	.301	.287	.46993	2.104

a Predictors: (Constant), ABILITY

b Predictors: (Constant), ABILITY, CULTURE

c Dependent Variable: INTEGRIT

#### ANOVA(c)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	7.516	1	7.516	31.834	.000(a)
	Residual	23.138	98	.236		
	Total	30.654	99			
2	Regression	9.233	2	4.617	20.906	.000(b)
	Residual	21.421	97	.221		
	Total	30.654	99			

a Predictors: (Constant), ABILITY

b Predictors: (Constant), ABILITY, CULTURE

c Dependent Variable: INTEGRIT

The predictors of the model are ability and corporate culture or personality and as seen in Table 4, ability of the co-operatives account for 23.7% of the variation on integrity of the co-operatives. When both predictors are entered into the model, this variation increased to 28.7%. The Durbin-Watson value of 2.104 implies that the assumption of independent errors is tenable as the value is close to 2.0 (Field,

2009). The ANOVA analysis also reveals that the model enhance the prediction of the outcome variable, meaning that integrity as the outcome of the postulated model can be predicted by looking at the two predictors.

## DISCUSSION

The study sets out to address the efforts exerted by the co-operatives in their initiatives to project their integrity. As indicated by the descriptive analysis, the co-operatives view aspects of integrity as important in their stature as co-operatives. This then is linked or correlated to dimensions of corporate culture and although the correlation is not distinctively strong (.426), there is still positive relationship. This is also true of the correlation between integrity and the abilities of the co-operatives in carrying out their retail ventures and again even though a correlation of .495 is noted, the positive correlation is enough to indicate that relationship exists among the variables.

The inferential analysis also provides enough evidence to accept the postulation that the corporate identity of the co-operatives which is proxy through the dimensions of integrity is linked to their corporate culture and the display of their abilities. To the co-operatives, integrity is important as this is a reflection of who and what they are. As co-operative they have a social obligation to uphold their outlook as a responsible entity not only to their members but to the public as well. The public especially will generally link the co-operatives with how they carry out their functions and with retail co-operatives they are often in the public eye. As such, their actions are akin to their marketing efforts, be it in a positive or negative manner. What this implies is that as co-operatives their roles and responsibilities are in the public eye and will be scrutinized by the public and their members. As members, the higher the level of identification they have with their co-operatives, the more likely that they relate to the co-operatives (Stoel, 2002). Thus, how a co-operative carries itself is pertinent to the effectiveness of the co-operatives.

This study is only an exploratory one as it seeks to address how the co-operatives view their obligations and how these are translated into the activities that they carry out. With an identity that is reflective of their personality, the co-operatives are indeed using this as a tool to project their level of trustworthiness and accountability. Although much needs to be done, this study has established that co-operatives do carry out distinct efforts to project who and what they are. Indeed co-operatives exist to serve their members and to ensure that the welfare of the members are a priority and if what they do is reflective of who and what they are doing, then would already indicate that they are in the right path to attaining co-operative effectiveness.

Future studies should address more dimensions that would provide a more rigorous assessment of the corporate culture of co-operatives, the projection of integrity and the means that co-operatives used to evaluate their abilities. What has been done in this study is just a small extension of another study on retail co-operatives and as such, a lot of pertinent elements may have been omitted. It is hoped that this study will open more avenues for other studies on co-operatives especially those that are linked to the marketing efforts of the co-operatives.

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## AUTHORS' BACKGROUND

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**Rahimah Abd. Samad** is currently the senior lecturer of the Co-operative Entrepreneurship and Retailing Centre at the Co-operative College of Malaysia (CCM). She has more than 26 years experience as a lecturer with CCM and besides teaching, has undertaken a number of research studies and written related article in the field of co-operative management. She obtained her Masters in Business Administration (2009) and Bachelor in Business Administration (Human Resource Management) (1998) from Universiti Teknologi MARA, Malaysia.

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