

# ATTRIBUTES AND PERCEIVED SUCCESS FACTORS OF PERFORMING CO-OPERATIVES IN MALAYSIA

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## ABSTRACT

*This paper analyses the attributes of selected performing co-operatives and explored the perception on the factors that have influenced the success of these co-operatives. For identification of the success factor, the survey method is adopted and a total of 567 questionnaires were collected from individual respondents (Board Members) representing 89 selected performing co-operatives. Responses were then analysed using the exploratory factor analysis. A total of three (3) factors were extracted using the principal component method with a varimax rotation. The three factor rotated explained a total of 54.38 percent of the variance and all the factors had acceptable reliability. The three factors identified were managerial competency, effective leadership and support. Group mean scores were then calculated for the three factors to determine their importance in determining the success of the performing co-operatives. Subsequently, effective leadership was perceived as the most important factor with the highest group mean score, followed by the factor, managerial competency. The factor, support was perceived to be the third most important factor.*

*Key words: co-operatives, management, success factor*

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## INTRODUCTION

Co-operative was introduced in Malaysia in the early 1990s by the colonial government in response to credit and indebtedness problems of peasants, farmers and the civil servants (Frederics, 1973). Since the registration of the first thrift and loan co-operative in July 1922, the co-operatives sector, placed under the authority of the Malaysian Co-operative Societies Commission (MCSC) has become an important part of the economy and made major impact on the lives of millions of Malaysians. From only 11 co-operatives in 1922, as of 31 December 2009, the movement has

registered 7,215 societies with a membership of 6.78 million people and total assets worth RM64.9 million (Table 1). These co-operatives have evolved from credit, agricultural and consumer function into a wide range of business activities covering banking, credit and finance, agriculture, housing, industrial, consumer, construction, transport and services.

Although the achievement in terms of numbers, membership size and asset accumulation portrayed that co-operatives have gained huge support and recognition, the co-operative movement currently contributes only slightly more than 1.4 percent to the Gross Domestic Product (GDP) of Malaysia. As such, while providing the best services to their members, co-operatives need to also strengthen their role within the context of national development. In view of this aspiration, the 2011-2020 National Co-operative Policy (NCP) have underlined strategies that will increase the participation of co-operatives in viable and high end economic activities to boost the contribution of co-operatives to achieve the targeted 5 per cent contribution to GDP by 2015 and 10 per cent by 2020.

In order for co-operatives to succeed economically and provide benefits to its members effectively, they would have to be influenced by certain critical factors. Whether driven by the management competency, leadership style or the activities undertaken, it would thus be enriching to discover the attributes of successful co-operatives and identify the important factors which are perceived to have contributed to their success. Identification of these factor could be used to establish a baseline of practices and guidelines for co-operatives to develop and to enhance their performance. It would also assist co-operative to focus their efforts on building the necessary capacity and competency in order to be successful. Correspondingly, identification of the success factors could provide guidance to the related agencies to which appropriate factors and actions they need to focus to stimulate co-operatives to be more successful.

## **REVIEW OF LITERATURE**

In the context of co-operative, a combination of traditional financial measure and non-financial or subjective indicators would appear to be the best measure to reflect the performance of co-operative as a socio-economic entity (Parsley, 1992; Hind, 1997). While the combined measures of performance are deemed to be more appropriate, there are however, arguments that accounting based measures of financial performance are a sufficient predictor of performance (Brief and Lawson, 1992; Peasnell, 1996). For instance Kakani et al. (2001) have utilized accounting based measures for evaluating the performance of firms in India, using the return on

**Table 1:** Number of Co-operative Societies in Malaysia (According to Sectors, as at 31 December 2009)

Function	No. of Coop.	Members (individuals)	Capital	Assets	Turnover	Profit/Loss
Banking	2	838,932	2,289,504,293	51,251,535,708	4,338,062,555	1,577,844,058
Credit/ Finance	575	1,963,054	4,170,086,940	7,180,092,477	1,367,606,347	348,108,617
Agriculture	1,362	289,484	244,317,272	1,256,095,986	613,878,566	123,113,737
Housing	107	89,182	133,356,559	406,619,034	36,442,571	164,698,774
Industrial	117	17,634	5,238,548	56,620,186	33,127,694	3,339,385
Consumer: (Adult)	1,681	670,908	279,481,976	1,127,480,418	791,900,262	56,451,623
Consumer: (School)	2,115	2,106,130	17,264,427	177,673,323	195,120,375	25,508,868
Construction	117	62,171	14,365,358	56,784,381	64,188,685	2,593,031
Transport	346	148,196	58,654,263	250,163,546	512,207,073	19,914,402
Services	793	598,084	1,753,250,727	3,236,209,436	966,475,435	341,347,245
<b>Total</b>	<b>7,215</b>	<b>6,783,775</b>	<b>8,965,520,363</b>	<b>64,999,274,495</b>	<b>8,919,009,563</b>	<b>2,662,919,740</b>

(Source: Malaysia Co-operative Societies Commission)

asset (ROA), the net profit margin (NPM), the return on capital employed (ROCE), cash flow measure (CFM) and compounded annual asset growth rate (CAGR).

Kyriakopoulos, Meulenberg and Nilsson (2004) in their study of the impact of co-operative structure, firm culture and market orientation on performance also adopted the multidimensional construct of profit margin, market share, relative market growth while Mishra, Tegegne and Sandretto (2004) uses the modified net income per dollar of assets and operator's labor and management income as a performance measure. Ward and McKillop (2005) on their study of the linkage between the UK Credit Unions characteristics, location and their success on the other hand uses two financial indicators; the payout ratio (dividend and rebate percentage) and efficiency ratio (cost to income percentage) as a measure of success.

Correspondingly, highlighting the attributes and perceived important factors influencing the performing co-operatives would provide a better understanding of the link to their success. Although there are a variety of possible factors that influenced success, previous research categorized the factors as either organizational (internal) or economic (external) in nature (Hansen and Wernerfelt 1989). They cited that these two effects are independent, with organizational factors explaining twice as

much variance in profit rates, suggesting that organizational factors influence firm performance to a greater extent than economic factors.

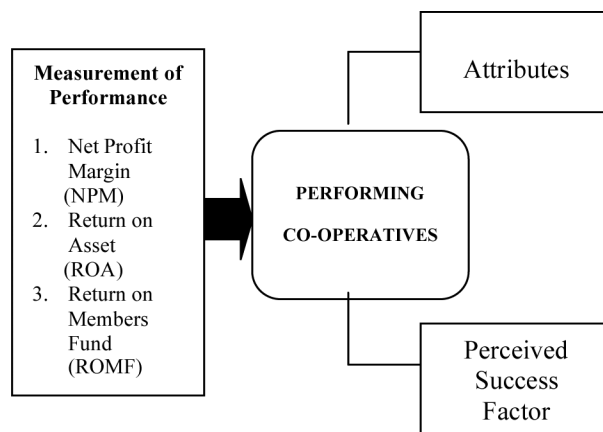
Powell (1966) suggest that research on identification of success factors should focus on the firm specific qualities such as culture, relationships, leadership and capabilities. Likewise, Lynch and Giorgis (1997) posit that the characteristics of small business managers, such as age, education background, experience and management skills are important to the success of these organizations. In Ward and McKillop (2005), size, location and affiliation to the league are found out to be contributory factors to the success of a credit union.

As member based organisations, members' involvement in their co-operatives is of paramount importance to the survival and success of co-operatives. In fact Amini and Ramezani, 2008; Lluch, Gomis and Jimenez, 2006 have identified active member participation in the administration of co-operatives as a key factor influencing the successful performance of co-operatives. For co-operatives to succeed, it is also imperative that they are managed effectively by visionary and competent leaders who are capable of planning strategically for the continued survival of the co-operative. Prior studies (Carr, Kariyawasam and Casil, 2008; Carlberg, Ward and Holcomb, 2006; Henehan and Pelsue, Jr., 1986; Pathak and Kumar, 2008) has found that having strategic or long term plans was positively associated with successful co-operatives. Bruynis, Goldsmith, Hahn and Taylor (2001), identified the following variables; securing sufficient equity before start up, maintaining adequate business volume, keeping and distributing accurate financial records, previous co-operative experience and continued management training for both the board and manager as important to the success of agricultural marketing co-operatives in America. The importance of training is also highlighted by Pathak and Kumar (2008) which identified that lack of training in financial management and lack of understanding of co-operative concepts were among the main reasons for the failure of many co-operatives in Fiji.

A study by Amini and Ramezani, 2008 investigating the success factors of poultry growers' co-operatives in Iran found that the following factors, in a descending order of importance, had the greatest effects on co-operative success: managers' technical skills, number of training programmes received by managers and members, quality of the training programmes offered, members' participation in the co-operative's administrative affairs and managers' interpersonal human skills. Henehan and Pelsue (1986) similarly found that two factors, management experience and adoption of

multi-year plans had the most significant influence on co-operative success, measured by sales growth. Meanwhile result of the study by Carlberg et al. (2006) which sought to determine success factors for New Generation Co-operatives (NGC) suggest that “planning and development” factor (strong local leader, steering committee and feasibility study) and financing and costs (low operating costs and member capital base) factor are considered to be critically important by NGC managers.

Thus, the framework adopted for this exploratory study, structured based on the literature reviews and related researches are as in Figure 1 below. The conceptual framework defines the measures of performance employed and the attributes of the performing co-operatives that the study proposed to identify.



**Figure 1:** The Conceptual Framework

## METHODOLOGY

The performance or success of co-operatives is assessed by using the three performance measures; the market measures (ROE), the accounting measures (NPM) and financial measures (ROA). This decision is also aligned with Rahman, 2001 which cited that a combined measure using revenue, profit and other variables would be appropriate to assess performance. All three (3) ratios are calculated for each 3,487 active co-operatives with complete 2008 audited financial data obtained from the MCSC. Each ratio was then given a score of 1 to 5 according to the 20% percentile. The performance of each co-operatives were then calculated and ranked based on the sum of these scores being the highest score 15 and the lowest score 3.

Overall performance score of between 11 – 15 was taken as the range to reflect good performance. The cut off point of 11 was also used to ensure that a sufficient number of co-operatives of different sizes (large, medium, small and micro) could be identified for the purpose of conducting in depth analysis. 270 co-operatives (excluding co-operative with annual turnover below RM100,000) from different cluster undertaking various functions or activities were finally identified as the performing or successful co-operatives. For the purpose of conducting in depth analysis, 100 co-operatives were selected according to their ranking and as close as possible to the proportion of the number of performing co-operatives. (Sampling size as prescribed by Bartlett Kotrilk, Higgins, 2001) However, after screening for completeness and validity of data, the research finally managed to obtained usable data for 89 co-operatives.

As past research highlighted that the attributes of performing co-operatives would provide a better understanding of their link to success, the research thus intends to study the following characteristics; financial, membership, management practices and the profile of the people who have brought the co-operatives to success.

For the purposes of analysis on the attributes of the selected performing co-operative and the perceived success factor, survey using structured questionnaires were conducted with the Board Members and the management personnel/manager of the co-operatives. Three to six Board Members and managers who have served the co-operatives for more than one (1) year are selected as respondents. Evidentiary documents mainly from annual reports furnished by the co-operatives and MCSS were also used for the study.

Primary data for this study is collected in two stages:

- i. At the preliminary stage, a set of questionnaire is used to explore responses from respondents related to the movement (board members, management staff and members of co-operatives as well as government officers supervising co-operatives) regarding factors that they perceived will influence the success of co-operatives. The preliminary set of questionnaire listed a number of perceived success factors mainly focusing on the internal environment, namely the management and the organizational characteristics. External factors, such as macroeconomic environment and market factors are not taken into account. A total of 203 responses were received and usable for analysis. Based on the feedback obtained from this preliminary study, the questionnaire for the final phase were drawn up.

- ii. At the final phase, two (2) sets of questionnaires were used to collect information from the co-operative, the Board Members and the managers of the selected performing co-operatives. Set 1 is structured to gather the background information of the respondents (Board Members) and their experience. Another section is designed to assess the perception of the respondents as to the important factors they perceived to influence the success or performance of their respective co-operative. This section requires the respondents to indicate their level of agreement for the 21 statements, using a 5 point Likert rating scale of 1 to 5, with 1 being for 'not important' and 5 for 'very important'

Meanwhile set 2 is intended to obtain the background of the co-operatives, the participation of members in co-operative activities and assistance obtained from various agencies. This set is to be answered by the Secretary or Manager of the co-operatives.

A team of researchers were employed to personally meet the respondents at their respective co-operatives. The questionnaire for the study was then distributed, briefed, checked for completion and collected on the same day.

## **SCOPE OF STUDY**

This paper is an exploratory study that is confined to only performing co-operatives throughout Malaysia of different sizes and activities. The performing co-operatives is selected from the 2009 database provided by the MCSC. School co-operatives and two banking co-operatives that is Bank Kerjasama Rakyat and Bank Persatuan were excluded from the study, Dormant and inactive (co-operatives which has not held their Annual General Meeting for two consecutive years) as identified by the MCCS and co-operatives which incurred net loss for the financial year were also removed from the basic databases.

## **FINDINGS AND DISCUSSION**

### **Attributes of the Performing Co-operatives**

On the whole a total of 30 large co-operatives (11.1%), 66 medium sized co-operatives (24.4%), 116 small sized (43.0%) and 58 micro sized co-operatives (21.5%) were rated as performing co-operatives (Table 1).

**Table 2:** Performing Co-operatives, According to Overall Performance Score (OPS) and Size

Size of Co-operatives	No. of co-operatives with Overall Performance Score 11-15					Total	% of Total
	Score	15	14	13	12		
Score	15	14	13	12	11		
Large	2	3	5	11	9	30	11.1
Medium	2	6	10	24	24	66	24.4
Small	3	6	32	43	32	116	43.0
Micro	3	8	16	12	19	58	21.5
<b>Total</b>	<b>10</b>	<b>23</b>	<b>62</b>	<b>89</b>	<b>86</b>	<b>270</b>	<b>100</b>

A majority of these 270 performing co-operatives are those registered under the consumer function (34.4%), credit function (20.4%) and service function (13.7). However in comparison to the total number of co-operatives under the respective function, co-operatives registered under transportation (10.1%) and credit (9.6%) has the most number being selected as performing co-operatives. On the other hand, although the number of consumer and agriculture co-operatives are large, only a small percentage were selected as performing co-operatives (Table 2).

**Table 3:** Performing Co-operatives, According to Function

Function	Performing Co-operatives			Sector
	Number	Percentage (%)	Percentage to Sector	
Credit	55	20.4	9.6	575
Agriculture	33	12.2	2.4	1,362
Housing	6	2.2	5.6	107
Industrial	4	1.5	3.4	117
Consumer	93	34.4	5.5	1,681
Construction	7	2.6	6.0	117
Transportation	35	13.0	10.1	346
Services	37	13.7	4.7	793
<b>Total</b>	<b>270</b>	<b>100</b>		<b>5098</b>



A more detailed analysis on the attributes of a selected sample of 89 performing co-operative, of which 17 (19.1%) are large, 26 (29.2%) are medium size, 29 (32.6%) small and 17 (19.1%) micro sized co-operatives are as follows:

#### (a) Size and Function

A majority of the selected performing co-operatives carried out agriculture function (20), followed by credit (19) consumer function (19) and services (16). Nine (9) of the selected co-operatives are involved in transportation. Two (2) out of the 89 co-operatives surveyed undertook the construction function while another four (4) co-operatives is in the housing function.

**Table 4:** Selected Performing Co-operative by Size and Function

Function	No. of Coop	Sizes of Co-operatives			
		Large	Medium	Small	Micro
Credit	19	7	4	7	1
Agriculture	20	5	8	5	2
Housing	4	2	1	0	1
Consumer	19	1	5	8	5
Construction	2	0	1	1	0
Transportation	9	1	4	2	2
Services	16	1	3	6	6
<b>Total</b>	<b>89</b>	<b>17</b>	<b>26</b>	<b>29</b>	<b>17</b>
		<b>(19%)</b>	<b>(29%)</b>	<b>(33%)</b>	<b>(19%)</b>

Most of the large size co-operatives selected for the analysis is involved in credit function while a majority of the medium size co-operative are involved in agriculture function. The smaller size co-operative selected are primarily involved in consumer and credit function, whilst most of the selected micro size co-operative is involved in the services and consumer function.

#### (b) Age (Longevity)

As reflected in Table 5, a total of 10 co-operatives (11.2%) were registered some 31-40 years ago while another 13 (15.7%) has been in operations for 41-50 years. Overall, 56.1% of the co-operatives surveyed has been in operations for more than 20 years.

**Table 5:** Selected Performing Co-operatives by Age of Operations

No.	Age (Year)	No. of Co-operatives	Percent (%)
1	≤10	19	21.3
2	11 - 20	20	22.5
3	21 - 30	13	14.6
4	31 - 40	10	11.2
5	41 – 50	14	15.7
6	> 50	13	14.6
	<b>Total</b>	<b>89</b>	<b>100.0</b>

With respect to function, the credit co-operatives surveyed are found to have been existence on average for 45 years. Similarly most of the agriculture and housing co-operatives selected as performing co-operatives has been in operations for more than 30 years. Although the construction and services co-operatives are relatively younger compared to the credit co-operatives, they have been in operations for more than 10 years.

**Table 6:** Selected Performing Co-operative Average Age and According to Function

No.	Function	Age Average	No. of Co-operative
1	Credit	45	19
2	Agriculture	32	20
3	Housing	42	4
4	Consumer Construction	21	19
5	Transportation	13	2
6	Services	18	9
	<b>Total</b>	<b>16</b>	<b>89</b>

### (c) Size of Membership

As depicted in Table 7, 55 out of the 89 co-operatives surveyed, mostly comprised of medium, small and micro size co-operatives have membership below 500 members, with four (4) medium, four (4) small and six (6) micro co-operatives having less than 100 members. One (1) large secondary size co-operative has 13 primary co-operative under it. Three (3) small and one (1) micro co-operatives however were found to have

between 1001-10,000 members. On the whole, 76.4% of the selected performing co-operatives have a total membership of 1000 and below.

The large size co-operatives generally have larger membership size, some having more than 10,000 members. These are generally made up of the more longer established co-operatives such as credit and housing co-operatives. Six (6) large size credit co-operatives (3.4%) were found to have more than 10,000 members while one services co-operatives have membership more than 20,000.

**Table 7:** Selected Performing Co-operatives by Size of Membership

Number of Members	No. of Coop	Sizes of Co-operatives			
		Large	Medium	Small	Micro
<100	15	1	4	4	6
100 – 500	40	5	13	13	9
501 – 1,000	13	0	3	9	1
1,001 – 10,000	15	5	6	3	1
10,001 – 20,000	3	3	0	0	0
>20,000	3	3	0	0	0
<b>Total</b>	<b>89</b>	<b>17</b>	<b>26</b>	<b>29</b>	<b>17</b>

#### (d) Fulltime Employees

The statistics on the number of employees in the 89 co-operatives indicates that 13 co-operatives (14.6%) are fully managed by the Board Members (BOD). Among the co-operatives that do not employ any staff, 1 is from the medium size co-operative, 5 are small co-operatives while another 7 is the micro co-operatives. 52.8% of the selected performing co-operative hired 5 employees and less to manage their co-operative while another 12 co-operatives engaged between 6 – 10 employees. However, it is interesting to note that three (3) of the small performing co-operatives and one (1) micro co-operatives employs between 6 to 10 people to help run the co-operatives while one (1) particular micro co-operatives has between 11 – 15 employees. Generally only the medium and large co-operatives have the capacity to employ more than 15 employees, with 9 co-operatives having more than 20 employees. One (1) large co-operatives in particular has a total number of 229 employees (Table 8).

**Table 8:** No. of Fulltime Employees Employed by Selected Performing Co-operatives

Number of Employed	No. of Coop	Sizes of Co-operatives			
		Large	Medium	Small	Micro
0	13	0		5	7
1 – 5	47	0		21	8
6 – 10	12	3		3	1
11 – 15	5	3		0	1
16 – 20	3	2		0	0
21 – 25	3	3		0	0
> 25	6	6		0	0
<b>Total</b>	<b>89</b>	<b>17</b>		<b>29</b>	<b>17</b>

Table 9 indicates that the larger and medium co-operatives tend to have higher capacity to hire executive and managerial level employees. 74 people were engaged as general managers and managers for the performing co-operatives while another 145 people are engaged at the executive level (Assistant Managers/Executives/Supervisors), working for 32 of the 89 performing co-operatives. Although a few small and micro co-operatives have employees at the executive and managerial level, they are more inclined to engaged employees at the clerical level.

A total of 413 people worked as clerical staffs and another 181 as general workers. In summary, the 89 performing co-operatives have provided 813 employment opportunities at the managerial, executive and clerical level with the large and medium co-operatives generating 86.5% of the job opportunities.

**Table 9:** Number of Employees According to Size of Co-operatives

	No. of Emp.	No. of Employees by Co-op Size			
		Large	Medium	Small	Micro
Gen. Manager	15	9	4	1	1
Manager	59	29	15	12	3
Asst Mgr/ Exec/ Supervisor	145	110	21	7	7
Clerical Staff	413	326	50	31	6
General Workers	181	111	28	18	24
<b>Total</b>	<b>813</b>	<b>585</b>	<b>118</b>	<b>69</b>	<b>41</b>

### (e) Business Activities

Performing co-operatives operates a number of diverse activities ranging from financial, plantation, construction to service based activities. It was found that most of the performing co-operatives (32.6% or 29 co-operatives) surveyed run only one type of business activity. Overall, more than 50% of the performing co-operatives focused on 1-2 core business activities. A total of 20 co-operatives (22.5%) were found to carry out two types of business activities while another 23 co-operatives (25.8%) are involved in three different business activities. Only 16 co-operatives are identified to be involved in 4-5 different form of business There is however one (1) small sized co-operative carrying out six types of activities in a smaller scale.

**Table 10:** Number of Activities undertaken by the Selected Performing Co-operatives

No. of Activities	No. of Coops	Percent	Size of Co-operatives			
			Large	Medium	Small	Micro
1	29	32.6	4	6	12	7
2	20	22.5	4	7	4	5
3	23	25.8	4	6	9	4
4	11	12.4	5	3	3	0
5	5	5.6	0	4	0	1
6	1	1.1	0	0	1	0
<b>Total</b>	<b>89</b>	<b>100.0</b>	<b>17</b>	<b>26</b>	<b>29</b>	<b>17</b>

As to the types of activities, 35 co-operatives run services business including cleaning services and providing premises for rental. This is followed by plantation activity and contracting activity (31 co-operatives), while credit activity is undertaken by 25 of the performing co-operatives. Only a small percentage of co-operatives are involved in the petrol station business and farming activity.

Most of the large size co-operative are found to be involved in credit, investment and consumer activities. Meanwhile, the service and contracting activities is the more preferred business undertaken by the medium size co-operative. Smaller and micro size co-operative on the other hand focused their effort on contract, service, plantation and retail business.

### **(f) Membership Growth**

Overall, membership for the large and small and medium size co-operatives grew at a rate of 6% while the membership for the micro co-operatives grew at an average rate of 14.4%. As per function, the membership for the housing and construction co-operatives increased significantly, with housing co-operatives recording almost a 50% growth rate. Alternatively the membership for the agriculture and consumer co-operatives declined slightly (0.25%) in the year 2008. Nevertheless the membership for the credit, transportation and services co-operatives grew moderately at a rate of between 3% - 5%.

### **(g) Assistance and Support Received from Agencies**

The study also investigated the types of assistance and support received by the performing co-operatives from different agencies, especially those related to the co-operative sector. On the whole, almost all of the performing co-operatives have received some form of assistance and support from different organizations, financially or otherwise.

It was found that 91.0% of the co-operatives (81 out of 89) received assistance and support from MCSC particularly in the form of financial aids and soft loans and majority of the co-operatives have also at one time received assistance from the MCSC in terms of annual auditing services. 75% of the co-operatives surveyed received assistance from CCM, mainly in the form of training and consultancy services. Similarly 74.2% of the sampled co-operatives have received support from ANGKASA in the form of member education and training programmes plus assistance in the form of pre-audit services and IT hardware's and software's supplies. A total of 39 co-operatives also indicate that they also received assistance/support from other agencies and state based agencies in the form of financial aids, specialized training programmes, technical and marketing support.

### **(h) Members Fund and Dividend Payout**

The total members fund accumulated by large co-operatives is mostly made of the shares and subscription contributed by members (72%). The remaining amount is made up of various funds set up for members benefit, such as members education fund, members benevolent fund and retained earnings. Conversely, the shares and subscription contributed by members of micro co-operatives only form 37% of their members funds.

**Table 11:** Members Fund of Selected Performing Co-operatives, According to Size

Size	No. of coop	Total Member's Fund	Total Share Capital + Subscription		Ave Div. P/out
			RM	%	%
Large	17	3,332,831,130	2,412,051,323	72	16
Medium	26	69,986,693	34,028,965	49	13
Small	29	36,453,983	23,690,485	65	15
Micro	17	5,242,572	1,958,498	37	19

As credit co-operatives obtained most of its financing from internal sources, the main portion of its members fund is in the form of shares and subscription (72%). Services co-operatives also has a large fraction of its members fund in the form of share capital and subscription (83%). Comparatively, the agriculture, housing, consumer, construction and transportation co-operatives, the shares and subscription contributed by members only ranges from 14% to 38%.

Although the percentage of shares and subscription to total members fund is small, the micro co-operatives are found to have paid the highest average dividend payouts (19%). This is followed by the large co-operatives which gave dividend return of 16%. Small co-operatives annual average dividend payout is 15% while the medium co-operatives on average paid out 13% dividends to its members. Credit co-operatives which have a sizeable amount of shares and subscription are observed to have the lowest average dividend payout (7%). Relatively, services co-operatives paid an average dividend of 12%. The highest dividend payout is given out by the construction and consumer co-operatives, 20% and 15% respectively.

#### (i) Allocation for Members Benefit

Besides dividend, co-operatives normally allocate part of their annual profit in the form of specific funds to improve the social well being of its members. It is observed that in almost all of the performing co-operatives have increased their allocation towards members benefit except for co-operatives under the services function. This increasing trend is probably in response to the higher profit recorded in the respective year (2008/2009).

However, the percentage increase in members' allocation is higher compared to the increase in the profit experienced by the various function. For example, although the

average net profit for the agriculture co-operatives grew 89%, the average growth in the amount allocated for members benefits soared more than 100%.

Similarly, the housing co-operatives on average allocated 33% of their profits for members, compared to their average growth of 18%. The credit, agriculture and industrial co-operatives are the top three functions with the biggest amount of contribution to members' benefit fund. The amount of allocation for the agriculture co-operatives also shows an upward trend, in line with the increase in its income and net profits. On the contrary the services co-operatives allocation to members' benefit increased a slight 4% despite recording a average growth of 24% in income and 12% in net profit.

#### **(j) Members Participation**

The participation of members in the selected co-operatives are gauged by assessing the percentage of their attendance at the annual general meeting (AGM) and the extent of members patronizing the co-operative activities. More than 50% of the selected co-operatives stated that 81% to 100% of their members attended the AGM. Meanwhile 25 co-operative (28.1%) declared that only 61% to 80% of their members attended the AGM whilst another 12 co-operative (13.5%) indicated that the attendance rate is between 41% to 60%. Only 4 co-operative (4.5%) reported poor rate (21% to 40%) of members attendance at AGM.

Meanwhile as to the estimated level of members' patronage towards the services and products offered by the co-operatives, 57 co-operatives (64%), indicated a very high to high level of members patronage. On the other hand 26 co-operative (29.2%) stated that members' patronage is in the medium level while only 6 co-operative indicates that they received poor response from the members' towards the services and product offered by the co-operative.

#### **Factors Perceived to Influence the Performance of Co-operatives**

This section presents the demographic characteristics of the respondents surveyed and the respondents perception on the factors that have influence the success of their co-operatives. A total of 567 questionnaires were collected from individual respondents (Board Members) representing the 89 selected performing co-operatives.



### (a) Profile of Respondents

A majority (80%) of the respondents surveyed were male. A total of 57.1 percent of the respondents were between 41 years old to 60 years old while another 27.3 percent were 61 years above. A further 14.3 percent of the respondents were between 21 years old to 40 years old. Only 7 or 1.2% of the respondents surveyed were below 20 years old. In general, the age of most of the board members of the selected performing co-operatives is between 41 to 60 years old.

**Table 12:** Respondents' Profile by Age

Age	Frequency	Percentage (%)
20 years and below	7	1.2%
21 – 40 years	81	14.3%
41 – 60 years	324	57.1%
61 years above	155	27.3%
<b>Total</b>	<b>567</b>	<b>100%</b>

Out of the 567 respondents, a total of 249 of the Boards Members were elected less than 5 years while another 39.2 percent has served the co-operatives between 6 to 15 years. A further 16.4 percent of the Board Members has served the co-operatives for more than 15 years.

**Table 13:** Respondents' Profile by Years of Experience

Years of Experience	Frequency	Percentage (%)
5 years and below	249	43.9
6 to 15 years	222	39.2
16 to 25 years	62	10.9
26 to 35 years	17	3.0
35 years above	14	2.5
<b>Total</b>	<b>567</b>	<b>100</b>

In terms of educational background it is found that 58.6% of the respondents possessed secondary level education and below while 41.4% of the respondents have acquired tertiary education and above.

**Table 14:** Respondents Profile by Qualification

Educational Qualification	Frequency	Percentage (%)
Secondary Education	332	58.6
A Level / Matriculation and Equivalent	30	5.3
Diploma	79	13.9
Bachelor Degree	83	14.6
Master Degree	26	4.6
Doctorate / PhD	6	1.1
Professional Qualification	11	1.9

The table below indicate the number of respondents who have attended job related training programs for the year 2007, 2008 and 2009. A total of 264 respondents in 2007, 260 respondents in 2008 and 268 respondents in 2009 attended 1 to 3 training program per year. It was however found that a large number of the respondents have not attending any job related training programs for the past three years.

**Table 15:** Job Related Training Programmes Attended

Total Course	2007	2008	2009
Not attending any course	245	250	243
1 – 3 courses	264	260	268
4 – 6 courses	47	45	47
7 – 9 courses	4	7	4
10 courses above	7	5	5

### (b) Factors Perceived to Influence the Performance of Co-operatives from the Perspective of the Board Members

To identify the important factors perceived by the board members to have influenced the success or performance of their co-operatives, the exploratory factor analysis was used. The suitability of data for factor analysis was assessed, using the correlation matrix and the Kaiser-Meyer-Olkin measure (KMO). An examination of the correlation matrix indicated that correlation between a considerable number of the variables exceeded 0.30, while the KMO value was 0.922 exceeding the recommended value of 0.6 (Pallant, 2002) and the Barlett's Test of Sphericity reached statistical significance. The data was thus deemed suitable for factor analysis.

A total of twenty items were then subjected to factor analysis using SPSS for Windows (version 15). Factoring ceased when all Eigenvalues of greater than one were obtained and when a set of factors explaining a substantial percentage of the total variance was achieved. An accepted method of interpretation of factor loadings is to regard significant any variable or item with a loading of 0.4 or greater as associated with the appropriate factor (Hair, Black, Babin, Anderson and Tatham, 2006). Hence 0.4 was used as the cut-off point to determine the number of items that loaded on to a factor.

The factors were extracted by using principal component method with a varimax rotation. The rotated component matrix presented in Table 16 revealed three factors with all items or variables showing strong loadings (more than 0.4) and loading substantially on only one factor or component. The three factor rotated explained a total of 54.38 percent of the variance, with Factor 1 contributing 20.55 percent, Factor 2 contributing 18.0 percent and Factor 3 contributing 15.8 percent. The seven variables or items with strong loadings on Factor 1 explained 81.65% of the variance in this factor, while another seven variables that loaded strongly on Factor 2 explained 83.1 percent of the variance in the second factor. Lastly, the six variables that loaded strongly on Factor 3 explained 69.15 percent of the variance in this factor.

Reliability analysis using Cronbach's alpha was carried out to examine the internal consistency of the three factors. As a general guideline, Cronbach's alpha coefficient of at least 0.7 is considered acceptable. Specifically, the Cronbach's alpha coefficient values for the three factors were 0.878, 0.844 and 0.761 as shown in Table 16, indicating that all three factors had good reliability.

The three factors were also labelled to aid interpretation. The seven items that loaded strongly, using factor loading of at least 0.4 as proposed by Hair et al. (2000, 2002). The Factor 1 relate to the competencies, required by the management team to manage performing co-operatives successfully specifically, experience, skills, efficiency, continuity of service and cooperation among the board and employees. As a result this factor was named, '**Managerial Competency**'. The seven items had factor loadings ranging from 0.437 to 0.848. The three items with very high loadings of more than 0.8 and are very closely related to the factor, are experienced, skilled and efficient senior staff of co-operatives. This finding underscores the importance of co-operatives employing competent staff in order to be successful.

**Table 16:** Factors Perceived to Influence Performing Co-operatives

	Variable/Item	Factor		
		1 Managerial Competency	2 Effective Leadership	3 Support
1	Experienced senior* staff of the co-operative	0.848		
2	Skilled senior staff of the co-operative	0.834		
3	Efficient senior staff of the co-operative	0.801		
4	Continuity of managers / supervisors	0.634		
5	Cooperation between board members and staff of the co-operative	0.595		
6	Experienced board members of the co-operative	0.589		
7	The co-operative emphasises education and training	0.437		
8	Honest, trustworthy and transparent board members and senior staff of the co-operative		0.781	
9	The co-operative maintains good financial management		0.685	
10	Visionary board members and senior staff of the co-operative		0.678	
11	Board members and senior staff of the co-operative who can deal effectively with problems and challenges		0.674	
12	Board members and senior staff of the co-operative who can communicate effectively		0.660	
13	Cooperation among board members		0.595	
14	Board members and senior staff with positive attitude		0.456	
15	Members' attendance at the Annual General Meeting			0.715
16	Support from the relevant agencies such as SKM, MKM and ANGKASA			0.618
17	Diversification of the co-operative's activities			0.609
18	Sufficient internal funds (shares, subscriptions)			0.573
19	Members' support towards the co-operative's products or services			0.549
20	Continuity of Board Members			0.543
	Eigen values	4.111	3.600	3.165
	% of variance explained	20.555	18.000	15.823
	Cumulative variance explained (%)	20.555	38.555	54.378
	Reliability (Cronbach's Alpha)	0.878	0.844	0.761

\*Senior staff refer to manager, executive and supervisor employed by the co-operative

Factor 2 also had seven items with strong loadings ranging from 0.456 to 0.781. These items relate to leadership traits and skills that were regarded as important for board and senior staff of performing co-operatives to possess. Specifically, the items pertaining to leadership traits that loaded strongly were honesty, trustworthiness, transparency, being visionary and positive attitude. In addition, items concerning leadership skills that loaded strongly on the second factor were maintaining good financial management, ability to deal effectively with problems and challenges, ability to communicate effectively and cooperate amongst the board members. Accordingly, the Factor 2 was thus referred to as '**Effective Leadership**'.

Finally, the third factor had six items with strong loadings ranging from 0.543 to 0.715. The six items are concerned with various types of support given by members, related government agencies and board members. In particular members' support is in the form of attendance at the co-operatives' annual general meetings, patronising the products or services and contributing sufficient funds in the form of share capital and subscriptions. Meanwhile Board members' support would be in the form of continuity of board positions and ensuring co-operatives' activities are catered to the differing needs of members. Support from the government agencies related to co-operative development such as the Malaysian Co-operative Societies Commission (MCSC), Co-operative College of Malaysia (CCM), ANGKASA, Majlis Amanah Rakyat (MARA), Federal Land Development Authority (FELDA), Federal Land Consolidation and Rehabilitation Authority (FELCRA), Rubber Industry Smallholders' Authority (RISDA) and Bank Kerjasama Rakyat in the form of loans, grants, training, advisory/consultancy services and technical assistance is also considered as important elements. This factor was therefore named '**Support**'.

Respondents' opinions on the level of importance of the three perceived factors associated with performing co-operatives as well as the level of importance of the corresponding variables within each factor were obtained, using a 5-Point Likert type Scale ranging from 1 (not important) to 5 (very important). For the purpose of analysis, it was decided that if a factor or variable has a mean score of at least 4 on the Likert type scale means the respondents perceive the factor or the variable to be important for the successful performance of co-operatives in Malaysia. The resulting mean scores for the three factors and their variables are shown in descending order in Table 17.

As shown, the factor **Effective Leadership** was perceived as the most important factor with the highest group mean score of 4.62, followed by the factor, **Managerial**

**Competency** with a group mean score of 4.39. Subsequently, the factor, **Support** was perceived to be the third most important factor with a group mean score of 4.34.

Within the factor, **Effective Leadership**, all seven items or variables were perceived to be important as indicated by their individual item mean scores which exceeded 4 and ranged from mean scores of 4.49 to 4.81. Incidentally, the first item in the **Effective Leadership** factor, 'honest, trustworthy and transparent board members and senior staff of the co-operative', with the highest mean score of 4.81 was perceived to be the most important variable within the first factor as well as among the twenty variables. Further, the item, 'the co-operative maintains good financial management' in the first factor was perceived to be the second most important variable (mean score of 4.77) within the factor as well as among the twenty variables included in the study.

Both these items reflect the perception that it is very important to have good governance in the management of co-operatives to ensure that they are successful. The item in the **Effective Leadership** factor, 'cooperation among board members' had the third highest mean score of 4.65 and was perceived to be the third most important variable. As leaders and policy makers in co-operatives, it cannot be denied that board members should have good cooperation amongst themselves so that the co-operatives' objectives are achieved successfully.

All seven variables or items in the factor **Managerial Competency** were also perceived to be important based on their high individual item mean scores, ranging from 4.15 to 4.59. The item, 'cooperation between board members and staff of the co-operative' had the highest item mean score of 4.59 in the factor, followed by the item, 'efficient senior staff of the co-operative' with the second highest mean score of 4.53 in the **Managerial Competency** factor. The item with the third highest mean score of 4.40 within this factor is 'experienced senior staff of the co-operative' and finally, 'skilled senior staff of the co-operative' came close with having the fourth highest mean score of 4.37.

Based on the individual item mean score of 4.59, 'cooperation between board members and staff of the co-operative' was perceived to be the most important item in the Managerial Competency factor. One possible reason for this perception is that board members are the policy makers of co-operatives and it is vital that they have good cooperation with staff to ensure that policies are implemented efficiently and effectively for the benefit of the co-operatives. Moreover, efficient, experienced and skilled senior employees were perceived to be more important than experienced board members. A reason for this perception could be that generally, board members

**Table 17:** Ranking of Factors Perceived to Influence Success of Performing Co-operatives

Factor No / Label	Group Mean Score	Items/Variables	Individual Item Mean Score
<b>1 (Effective Leadership)</b>	<b>4.62</b>	Honest, trustworthy and transparent board members and senior staff of the co-operative	4.81
		The co-operative maintains good financial management	4.77
		Cooperation among board members	4.65
		Visionary board members and senior staff of the co-operative	4.58
		Board members and senior staff of the co-operative who can deal effectively with problems and challenges	4.57
		Board members and senior staff with positive attitude	4.51
		Board members and senior staff of the co-operative who can communicate effectively	4.49
		<b>2 (Managerial Competency)</b>	<b>4.39</b>
Efficient senior staff of the co-operative	4.53		
Experienced senior staff of the co-operative	4.40		
Skilled senior staff of the co-operative	4.37		
Experienced board members of the co-operative	4.36		
The co-operative emphasises education and training	4.35		
Continuity of managers / supervisors	4.15		
<b>3 (Support)</b>	<b>4.34</b>		
		Sufficient internal funds (shares, subscriptions)	4.54
		Members' attendance at the Annual General Meeting	4.46

**Table 17:** cont.

Table 17: *cont.*

Factor No / Label	Group Mean Score	Items/Variables	Individual Item Mean Score
		Diversification of the co-operative's activities	4.19
		Members' support towards the co-operative's products or services	4.18
		Continuity of Board Members	4.15

serve co-operatives on a voluntary capacity unlike senior staff who are employed full time to manage the business operations of co-operatives. Hence the perception that efficient, experienced and skilled senior staff are more important than experienced board members for co-operatives to perform well.

The third factor, **Support** has six items or variables, all of which were perceived to be important, based on their high individual item mean scores, ranging from 4.15 to 4.54. Two items in this factor, 'support from the relevant agencies such as MCSC, CCM and ANGKASA and 'sufficient internal funds (share and subscriptions)' received the highest mean score of 4.54 and were thus perceived to be the most important variables in this factor.

The item with the second highest mean score of 4.46 in the **Support** factor was 'members' attendance at the annual general meeting'. The fact that support from the government agencies related to co-operative development was perceived to be very important denotes that co-operatives are still dependent on the government for their growth. In addition, members' contribution in the form of shares and subscriptions as well as, their attendance at the annual general meetings suggest that members' support is perceived as being crucial for co-operative success. By attending annual general meetings, members are able to participate directly in making decisions concerning the activities of their co-operatives.

## CONCLUSION

The findings from this study indicates that a majority of the performing co-operatives are those registered under the consumer, agriculture, credit and service function. A more detailed analysis on the attributes of a selected sample of 89 performing co-operative reveals that most of the large size co-operatives is involved in credit function while a majority of the medium size co-operative are involved in agriculture



function. The smaller size co-operative are primarily involved in consumer and credit function, whilst most of the selected micro size co-operative is involved in the services and consumer function.

Overall, more than half (56%) of the selected performing co-operatives surveyed has been in operations for more than 20 years. A total of 76.4% of the selected performing co-operatives have a total membership of 1000 and below. On the other hand the larger and more longer established credit and housing co-operatives generally have larger membership size, some having more than 10,000 members. The larger and medium co-operatives also tend to have higher capacity to hire executive and managerial level employees. Although a few small and micro co-operatives have employees at the executive and managerial level, they are more inclined to engaged employees at the clerical level.

Although the selected performing co-operatives operates a number of diverse activities ranging from financial, plantation, construction to service based activities, most of them focused only on 1-2 core business activities. To run their business operations, almost all of the performing co-operatives have received some form of assistance and support from different organizations, financially or otherwise.

The findings also indicates that the micro co-operatives are found to have paid the highest average dividend payouts (19%) followed by the large co-operatives (16%). The higher dividend payout rate is probably given out by micro co-operatives as it involves a smaller monetary amount and membership compared to that of large co-operatives. Small co-operatives annual average dividend payout is 15% while the medium co-operatives on average paid out 13% dividends to its members. It is also observed that there is an increasing trend in the amount of allocation made towards members benefit. In fact the percentage increase in members' allocation is higher compared to the increase in the profit experienced by the various function. Feedback from the respondents also indicates that overall the participation of members, in the form of attendance at the annual general meeting (AGM) and the extent of members patronizing the co-operative activities was satisfactory.

The key findings from this study, drawn out from the performing co-operatives Board Members viewpoint are three main factors deemed to be influential to the success of their co-operatives; **managerial competency, effective leadership** and **support**. In terms of importance, effective leadership was perceived as the most important factor, followed by the factor managerial competency. Support in various forms received

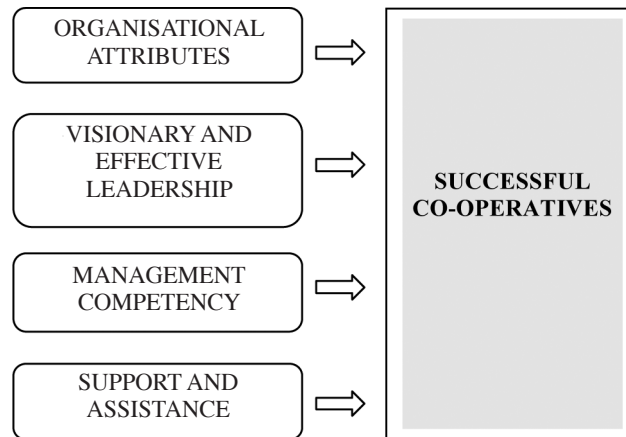
by co-operatives from different entities are considered as the third most important factor to have influenced performance.

Successful co-operative creation often depends on the capability, commitment and support of leaders who are actively engaged in the operations of the organization. While the personality, education and management experience of these leaders may differ, they have commitment, vision and determination in common. Whoever they are, visionary and effective leaders are regarded as significant factors which could influenced the success of performing co-operatives. Therefore, to be successful, co-operative leaders need to possess specific leadership traits such as honesty, trustworthiness, transparency, charismatic and have the ability to shape opinion and their vision with co-operative members. Equally important, co-operative leaders need to maintain good financial management, have the ability to deal effectively with problems and challenges, capable of communicating effectively and cooperate amongst the board members. Faced by the challenging business environment, co-operative leaders must also possess entrepreneurial competencies and business related skills, or have access to those skills in their key employees.

Competent management team which comprise of the Board Members, managerial and senior staffs is viewed as central to the achievement of the performing co-operatives. Although the relationship between the board and the manager of a co-operative is complex and dynamic, their roles should be clear, the board sets broad policy and strategy, the manager implements. Thus, to manage co-operatives successfully the management team specifically requires related work experience, skilled and efficient senior staff, continuity of service and strong cooperation among the board and employees. A competent management team that is experienced in the appropriate field, trained and able to communicate well internally and with the members was also deemed important to the success of co-operatives.

Finally, support given by members, related government agencies and board members are deemed to be important to the success of these performing co-operatives. Members' support in the form of attendance at the annual general meetings, patronizing the products or services and contributing sufficient funds whilst continuity of board positions are essential factors that help sustain the performance of co-operatives. Consecutively, support from agencies and related organization in the form of loans, grants, training, advisory/consultancy services and technical assistance would also be valuable to the development and accomplishment of a co-operative.

Summing up, drawn from the findings of this exploratory study is a proposed model for the factors influencing the performance or success of co-operatives. Further research, both qualitative or quantitative in nature could be carried it to investigate these initial findings influence on the performance or success of co-operatives.



**Figure 2:** Proposed Model “Factors Influencing the Success of Co-operatives”

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