

## Co-operative Governance and the Public Interest: Between Control and Autonomy

(*Governans Koperasi dan Kepentingan Awam: Antara Kawalan dan Autonomi*)

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### ABSTRACT

*Co-operatives are jointly owned by their member-users, who also democratically control the enterprise. In turn, all members share the benefits of co-operatives. Thus far, not much is understood about the role of the regulator vis-à-vis the co-operative board in the governance of the claimed, social enterprise. The objectives of this study are to evaluate co-operative governance from the public interest perspective and provide narratives of the nature of governance practices for accountability of Malaysian co-operatives. This study adapts a public interest view borrowed from the political theory framework as proposed by Cochran (1974) for the evaluation of governance practices in relation to co-operatives' accountability. Data was collected through in-depth interviews. The framework suggests co-operatives follow a consensualist view, responsible to the specific community or members they serve, which demands a certain degree of autonomy to operate effectively. The description of the nature of control over co-operatives and the public's interest in co-operatives that this study provides, recommends control by regulators is, to a certain extent, needed in order for co-operatives to be effective in discharging their accountabilities as there are a lack of members' activism and co-operative board competency inherent the industry in Malaysia.*

*Keywords: Co-operative governance; public interest; autonomy; accountability*

### ABSTRAK

*Koperasi dimiliki oleh ahli pengguna, yang juga mengawal secara demokratik enterpris berkenaan. Sebagai pulangnya, semua ahli berkongsi manfaat koperasi. Setakat ini, belum banyak yang difahami mengenai peranan pihak pengawal selia berbanding lembaga koperasi dalam governans yang dikatakan enterpris sosial ini. Objektif kajian ini adalah untuk menilai governans koperasi dari perspektif kepentingan awam dan memberikan naratif mengenai bentuk amalan governans bagi mencapai akauntabiliti koperasi-koperasi di Malaysia. Penelitian ini mengadaptasi pandangan kepentingan awam yang dipinjam daripada kerangka kerja teori politikal seperti yang telah dicadangkan oleh Cochran (1974) dalam penilaian amalan governans yang berkaitan akauntabiliti koperasi. Data telah dikutip melalui temubual mendalam. Kerangka kerja tersebut mencadangkan koperasi cenderung menurut pandangan konsensualis, bertanggungjawab dan berkhidmat kepada komuniti atau ahli-ahli tertentu, yang perlu kepada darjah autonomi tertentu untuk beroperasi dengan berkesan. Gambaran yang diberikan kajian ini mengenai bentuk kawalan ke atas koperasi dan kepentingan awam ke atas koperasi, mencadangkan kawalan oleh pihak pengawal selia, masih diperlukan untuk keberkesanan koperasi dalam menjalankan akauntabilitinya kerana kelemahan dalam keaktifan ahli dan kecetakan lembaga pengarah koperasi di Malaysia.*

*Kata kunci: Governans koperasi; kepentingan awam; autonomi; akauntabiliti*

### INTRODUCTION

A co-operative is an autonomous association of people who voluntarily co-operate for their mutual social, economic, and cultural benefit. Co-operatives include non-profit community organizations and businesses that are owned and managed by the people who use their services (a consumer co-operative) or by the people who work there (a worker co-operative) or by the people who live there (a housing co-operative) (Ridley-Duff 2008). They can also be any hybrid form of these types such as worker co-operatives that are also consumer co-operatives, or credit unions (Ridley-Duff 2008).

Despite the success stories of co-operatives worldwide,<sup>1</sup> a closer look at the industry shows that only a small number of co-operatives are sustainable and controlling

the industry (International Co-operative Alliance 2014). Another example, in Malaysia, approximately 77.6% of the total co-operative industry's assets belongs to two co-operative banks (Malaysian Co-operative Societies Commission 2015). This evidence shows that there is a huge disparity between the successful and less successful co-operatives, which could be attributed to their governance structures and processes. Brown and Moore (2001) indicate that increases prominence and greater influence have exposed the institutions such as co-operatives to closer scrutiny for accountability. Different from companies, co-operatives are owned and to a certain extent controlled by members and not shareholders. Since a member's vote is not synchronised with the number of shares owned, the difference between cash flow and

voting rights can create problems. Therefore, due to their democratic features and depending on the members' knowledge and activism, co-operatives can be controlled by individuals who are politically or socially popular but less capable of managing the entity. While "popularity" may be important to make sure co-operatives serve the public interest, it may adversely affect the financial performance of co-operatives. In Malaysia, only 75% of nearly ten thousand co-operatives recorded a profit (Malaysian Co-operative Societies Commission 2015).

Co-operatives' performance may be affected by external governance mechanisms (i.e., the law), guidelines, procedures and control by government and its agencies. While tight control by these external governance mechanisms can ensure the public interest is served, it could lengthen the process of decision-making as the level of bureaucracy is increased. Such control in the process could subsequently affect co-operative performance due to loss of business opportunities. It could also affect the ability of co-operatives to innovate in order to create value. As such, it is not clear to what extent the control of external governance mechanisms affects co-operatives' accountability i.e., to the public and stakeholders. The objectives of this paper are: to provide a narrative of the nature of governance practices of co-operatives in Malaysia and evaluate the practices from the public interest and control versus autonomy lenses.

This paper is different from a majority of the prior literature in several aspects. First, most of the prior literature focuses on the unique character of co-operatives' ownership structure i.e., one member has one vote (Pellervo 2000; Nunnenkamp 1995). This uniqueness has motivated others to highlight the importance of democratic governance in the social enterprise sector such as co-operatives (Tam 1999; Johnson 2006) as opposed to the conventional view of corporate governance as the control of organisations by external interests (Berry et al. 1995). This study extends the debate on possible limitations of democratic governance in co-operatives (Borzaga & Defourny 2001; Brown 2006; Low 2006; Spear et al. 2007; Mason 2009) by demonstrating that democratic control may not always lead to better management and control, particularly when the limitations are set by external governance mechanisms i.e., by regulators and the level of members' activism. Secondly, this is the first study that views co-operatives' accountability from a public interest perspective, adapted from political theory framework as proposed by Cochran (1974), to the context of co-operatives. Cooperatives are important in facilitating members fostering access to financing, increasing productivity, promoting collective bargaining and market access, and raising incomes, thus engendering poverty eradication (Kwakyewah 2016). This study advances the argument that whether cooperatives survive and contribute to development depend on specific underlying conditions. These conditions relate mainly to organisational dynamics of the cooperative, particularly between members of the cooperative and its leadership.

The objective of this study is to understand the nature of control over (and hence autonomy in) co-operatives by external governance mechanisms for the members' interest. Control, to some extent is necessary, but if too much, puts co-operatives in the difficult position of expanding as business entities. This paper is organized as follows. The first section discusses briefly the economic contribution of the co-operative sector in Malaysia, followed by a section that describes the literature review and theory on perspectives of co-operative governance. The third section is on the methodology of this research followed by a section on discussion and research findings based upon the public interest view which is adapted from the political theory framework. The final section concludes the paper.

#### CO-OPERATIVES IN MALAYSIA

The number of co-operatives and their total assets have considerably increased in the period from 2006 to 2011. Table 1 reports some detailed information regarding Malaysian co-operatives.

TABLE 1. Co-operatives by industry sector

| Types          | No. of Co-operatives | Number of members | Total capital (million RM) | Total Asset (million RM) |
|----------------|----------------------|-------------------|----------------------------|--------------------------|
| Banking        | 2                    | 993,593           | 3,316.28                   | 90,632.63                |
| Credit         | 597                  | 1,338,057         | 5,606.84                   | 11,945.73                |
| Agriculture    | 2,553                | 744,406           | 604.86                     | 2,449.65                 |
| Housing        | 217                  | 155,944           | 218.42                     | 1,032.35                 |
| Industrial     | 253                  | 18,155            | 11.04                      | 78.77                    |
| Consumer       | 4,916                | 2,748,160         | 335.87                     | 1,653.97                 |
| Construction   | 196                  | 130,614           | 59.61                      | 414.23                   |
| Transportation | 460                  | 149,273           | 67.18                      | 323.3                    |
| Services       | 2,677                | 1,131,888         | 3,247.96                   | 8,257.06                 |
| Total-2014     | 11,871               | 7,409,547         | 13,468.06                  | 116,787.70               |
| Total-2011     | 9,074                | 7,040,000         | 10,485.55                  | 92,800.00                |
| Total-2006     | 4,918                | 5,860,000         | 7,290.00                   | 37,470.00                |

Source: Malaysian Co-operative Societies Commission<sup>2</sup> (2015)

Table 1 shows that there are 11,871 co-operatives registered at the end of 2014 and the number of registered co-operatives has been increasing since 2006. The co-operatives encompass various industries, such as banking, credit, and agriculture. Approximately 24.6% (77.6%) of total capital (total assets) of co-operatives belongs to two co-operative banks. This indicates that most Malaysian co-operatives are small and medium-sized. The growth of small and micro co-operatives has been difficult due to the inability to hire professional managers (Economic Reports Co-operative Sector 2010). Statistics in 2012 show that on average, only 75% of the co-operatives are profitable. There were 1,976 dormant or inactive co-operatives, involving 189,029 members (Malaysian Co-operative Societies Commission 2015).

The Economic Reports Co-operative Sector (2010) reveals numerous weaknesses regarding the corporate governance, management and performance of Malaysian co-operatives. The lack of any empirical evidence in this area is evident. As a result, there is a need to examine the influence of the main players in co-operatives i.e., the governance on co-operative accountability to serve the public interests.

#### LITERATURE REVIEW

According to the Co-operatives Act 1993 (Act 502), co-operative is an autonomous association of persons united voluntarily to meet the needs and aspirations of the economic, social and cultural needs through a company jointly owned and democratically controlled under the act. Currently, the co-operatives sector in Malaysia is placed under the authority of Suruhanjaya Koperasi Malaysia (SKM) or the Malaysian Co-operative Societies Commission. Co-operatives play a significant role in Malaysia's economy and created a major impact on millions of Malaysians (Noordin et al. 2012).

Co-operative is categorised in social economy sector of Malaysia. Based on National Co-operative Policy (2011-2020), co-operatives are expected to contribute about 10% to the national output by 2020. Mahazril 'Aini, Hafizah and Zuraini (2012) argued that the role played by cooperatives are to mitigate poverty and act as the distribution of nation's wealth. Several issues of accountability have been raised in the co-operatives sector. According to Maslinawati et al. (2013) Malaysian co-operatives have been associated with a history of mismanagement, criminal breach of trust and fraud. They have also identified several issues such as lack of leadership and managerial talent, weak governance structure and lack of integrity among the management and members of co-operatives. The governance in a co-operative revolves around its autonomy, members' democratic control or active participation to achieve common objectives (ICA 1995). Trewin (2004) highlighted that the control problem of governance is difficult, hence the practice of accountability is very vital.

#### CO-OPERATIVE GOVERNANCE

Governance can be defined as the way (activity, process, method, structure or system) people or society is ruled, managed or governed to achieve objectives (Rhodes 1996). This definition goes beyond corporate governance that focuses mainly on the governance of corporation or organization. Governance of co-operatives is a special case of governance, emphasizing on the system by which co-operatives are directed and controlled (borrowing from corporate governance definition by The Cadbury Report (1992). Governance of co-operatives ensures transparency, integrity and accountability in achieving multiple objectives of success i.e. to serve their members'

interests (Berge, Caldwell & Mount 2016). As such, co-operatives have always been identified as social enterprise i.e. enterprises that trade for social (members or community) or environmental purpose (Spear, Cornforth & Aiken 2009).

A co-operative is unique and different from other business. It belongs to the members. Member-owners share equally in the control of their co-operative. Co-operatives' members meet at regular intervals, hear detailed reports, and elect directors from among themselves. The directors, in turn, have the option to hire a management team or a manager to handle the day-to-day affairs of the co-operative in a way that services the members' interests.

In order to ensure that co-operatives create common values for its members, the board of directors, on behalf of the members, assumes total accountability for the co-operative. The board is answerable to the members that the co-operative's values<sup>3</sup> are consistent with its members' interests. Members depend on the co-operative's board to effectively exercise authority on their behalf to assure protection over their assets and that the co-operative delivers the benefits that they expect based on the accepted co-operative principles.

There is a slight difference in the governance of co-operatives compared with corporate governance. The board of a co-operative should not only monitor upper management and oversee strategic decisions to maximize returns on investment, it must also effectively look after its members' needs while simultaneously remaining competitive in the market. It has to maintain sufficient connection to members' common goal(s).

Generally, co-operatives do not operate under the auspices of market regulatory authorities unless they provide products or services in a regulated industry, such as the financial services industry. That, however, has not prevented many co-operatives in unregulated sectors from recognizing the value of solid governance structures as a step toward long-term viability, continued growth and greater transparency among their community of members. Co-operatives are regulated under the auspices of the Malaysian Co-operatives Societies Commission, which was given its mandate by the Malaysian Co-operative Societies Act 1993 (Act 502).

As social enterprise,<sup>4</sup> co-operatives have become a 'policy vehicle' which constitute an important part of the overall government policy (Spear et al. 2009). As such, the issue of government or regulator influence in the governance of co-operatives is very timely to be investigated.

Thus far, not many have investigated the issue of governance in co-operatives. Goncuoglu, Ozbilgin and Unal (2011) found professional managers determines performance of fishery co-operatives in Turkey. Internal (such as managerial skills, training and solidarity) and external governance (legislative support) are important factors for co-operative performance (Unal, Guclusoy & Franquesa 2009). Other research marked the importance of trust (among members and between members and

co-operative management) on co-operative membership retention, performance and satisfaction (Hansen, Morrow & Batista 2002). Meanwhile, there are also work that underscore the importance of members involvement in the governance process such as Birchall and Simmons (2004), while recently Chechin et al. (2013) suggests a typology of active member involvement i.e. (a) passive, (b) occasional supporter, (3) involved and (4) pro-active. Other strand of study views governance of co-operatives from their networking model and coordination (Sachetti & Tottia 2016). This approach view co-operatives from multi-stakeholders perspective and their hierarchical importance of interests and objectives (Sachetti & Tottia 2016). The nearest study to the current study is by Spear (2004) that investigates governance from the control (principle-agent theory) versus collaborative (stewardship theory) perspectives. The results suggest there is a lack of board control and coalition, weak stakeholder involvement, low member participation and weak member right protection in co-operatives which may lead to more managerial autonomy as compared to other form of business and open for exploitation of resources within the entity. As can be seen from the literature, none has investigated co-operative governance from the lens of regulator control versus autonomy balance.

In order to investigate the balance between control and autonomy, it is important to understand the fourth principle of co-operative, which is autonomy and independence. As indicated in the principle, "Cooperatives are autonomous, self-help organizations controlled by their members. If they enter into agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their cooperative autonomy" (International Co-operative Alliances 2017). The importance of democratic control by members that determines the power to make decision for co-operatives (by the elected board and annual general meeting) is highlighted in this principle.

Autonomy has been investigated in the governance of government related entities such as higher learning institution reforms in Asia and Europe (Wright & Ørberg 2008). In most cases, reforms towards more autonomy from direct government control (when the matter is for the public interest) is suggested to make sure the entities are competitive, efficient and effective to achieve their goals. Since governance (internal and external) is also about control of co-operatives, it is imperative to understand the balance between the fourth principle of co-operative (i.e. autonomy) and governance principle of monitoring to ensure achievement of its accountability. Thus far, this issue has never been investigated in prior literature.

#### CO-OPERATIVE ACCOUNTABILITY AND THE PUBLIC INTEREST

Co-operatives pursue both social and economic objectives that are defined as their accountability. According to

the Malaysia Co-operative Commission (2012), a "co-operative" is defined as "... a society registered under the Co-operative Societies Act 1993 with objectives to promote economic interest among its members in accordance with co-operative principles". The definition implies that a co-operative is a socio-economic entity, voluntarily funded by communities such as commercial and residential, and is directed by members to provide their social and economic needs. In contrast with commercial entities, co-operatives contain either social or economic interests (Ismail & Sarif 2010). Accountability means the processes through which an organization makes a commitment to respond to and balance the needs of stakeholders in its decision-making processes and activities, and delivers against this commitment (Global Accountability Project (GAP) Framework).

Today, the main emphasis of a corporation is on shareholders' interests. However, in co-operatives, the emphasis should not only be on profitability, but also on fulfilling stakeholders' expectations. Co-operatives often attempt to provide services which the market cannot provide at minimum price to the members. In other words, while in companies, maximizing the wealth of owners is the main goal, such goals cannot be generalized to co-operatives because co-operatives have the responsibility of providing goods and services, which are demanded by the member-owners i.e., maximizing benefit to the members (Malaysian Co-operative Societies Commission 2000). Hence, for listed companies, the value of shares can be a good indicator of the owners' value. However, the application of such an indicator is not only impossible for co-operatives because they are non-listed, but the main goals of co-operatives can be either financial or non-financial benefits (members' welfare). It is the co-operatives' responsibility to fulfil the goals, and the management must be held accountable for non-achievement of these goals. These "welfare" goals have characterized co-operatives as social enterprises that prioritize the financial and non-financial welfare of members. Because the membership of co-operatives is always dispersed, it can be said that co-operatives benefit a certain section of the community or the public at large. A concrete definition of the public interest in co-operatives remains elusive. Thus, it is imperative to have an understanding of public interests in co-operatives before undertaking an analysis of its governance.

A view on public interest can be gleaned from the political theory framework as proposed by Cochran (1974). A four dimensions typology of public interest theories is proposed, which consist of normative, abolitionist, process and consensualist theories. Dellaportas and Davenport (2008) suggest that these theories rest in a continuum, being the normative theories at one end, and abolitionist at the other end. Public interests as depicted by the *normative theories* requires ethical standards to be used to evaluate public policies. The concept of common good rather than private benefits is used whereby a policy is evaluated on the basis of whether it contributes to the

common good of the community as a whole (Cochran 1974; Dellaportas & Davenport 2008; Sturm 1978). Thus, there could be conflicts between interests of the general public and interests of the selected few. An ideal standard always exists to define the options that would benefit the majority of people. If the regulator views co-operatives as entities that provide common good to the general community, there is a tendency for them to produce more general guidelines and procedures that become standard to control co-operatives. Nevertheless, are co-operatives established for the majority of people? This issue will be discussed later.

In contrast, the *abolitionist theories* view groups within the community as competing for their self- or private-interests without considering the others. In politics, each group competes for power and tries to influence others to protect their own interests (Sturm 1978). Thus, in an organized society, standards are used to pursue self-interest. The real public interest is just rhetoric. Generally, the establishment of co-operatives is meant to bring together individuals with similar interests and form a group that pursues certain objectives, collectively. Although there could be a number of people in the management who may have self-interests, we cannot say that only self-interests exist in co-operatives. In other words, in most situations, the view on co-operatives is not compatible with the abolitionist theories.

*Process theories* suggest that achieving the desires of society requires appropriate mechanisms or processes to be in place in order to deal with interest groups' pressures (Zarecor 1959). It focuses on the process that transforms conflicts into policies for the benefit of the public (Dellaportas & Davenport 2008). Competition is common in business. While co-operatives can compete they are expected to collaborate and complement each other. The interests are not really diverse because they are mostly aimed at making profit and benefiting the members. Therefore, interest group's pressure on the commission is considered trivial. Competition to get the attention of regulators only happens to get certain benefits from the Malaysian Co-operative Societies Commission, for example, grants for business development and loan for capital financing.

On the other hand, *consensualist theories* do not have a clear definition of public interest. The focus is broader than interest groups but does not cover the whole society (Dellaportas & Davenport 2008). The policy debate is based on morals, principles and community values and is very near to the normative theories (Dellaportas & Davenport 2008). This category is more closely related to co-operative characteristics and aligned to the principles of co-operatives as previously described.

The continuum of public interest can be depicted as below in Figure 1:

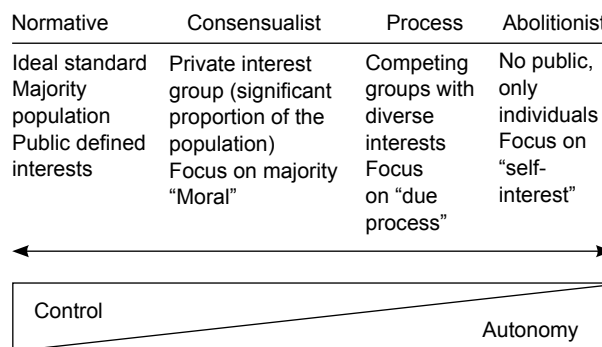


FIGURE 1. The continuum of public interest theory (Dellaportas & Davenport 2008) and resulted control (autonomy)

The continuum implicitly suggests the nature of control co-operatives should have. For normative theories, an ideal standard should be developed because of the interests are for the majority of the public. For this, the public determines their interests and entities should fulfil the public defined interests. It can be expected that the "public defined interests" resulted in, the most control from the government compared with other categories in the continuum. The nature of control (autonomy) diminishes (increases) as we move from normative theories to abolitionist theories. Therefore, the continuum of public interest can be used to understand the nature of co-operatives, whether co-operatives can be categorised as one of the category as suggested by the theory and to identify the most suitable governance style adopted by co-operatives.

The preceding section shows that co-operatives are unique organizations that generate profit as well as perform social obligations to the community. The below excerpt describes the accountability of co-operatives and the nature of being distinct from other forms of organizations.

"They (Co-operatives) are sufficiently distinctive to be recognised as different from government bodies, voluntary associations and private business. They are also sufficiently distinctive to be recognised as different from trading charities, non-profit companies, and corporate social responsibility projects. This distinctiveness comes from a governance philosophy rooted in balancing the disciplines of social responsibility, participative governance and market success". (Ridley-Duff 2008: 304)

To fulfil the financial and non-financial obligations to serve a certain section of the community, a good governance system should be in place. In terms of corporate governance structure, certain differences between commercial firms and co-operatives can be highlighted: "Co-operatives differ from traditional investor-owned companies in respect to their ownership character, goal setting, methods of financing and profit distribution, and decision making" (Pellervo 2000: 10). The Co-operatives Governance Guideline issued by the Malaysian Co-operative Societies Commission defines governance as the process and structure to govern and manage business and the entity's affairs to enhance

business prosperity and corporate accountability with the main objective to give long term values to the owners (GP 27, paragraph 2). In the co-operatives' context, governance establishes the link between the members as the owners, the management teams who handle the business affairs and the board who leads the management on behalf of the owners to achieve the co-operative's objectives (GP 27).

#### METHODOLOGY

Since the issue of public interest in the co-operative industry is still new, a qualitative approach is the most appropriate method (Creswell 2008). Furthermore, a qualitative approach is the best technique when we want to explore a subject about which we do not know much in advance (Bryman 2004), and when there has been very little research undertaken on the topic (Eisenhardt 1991). The objective of this paper is not to search for a conclusion based on statistical generations, but rather, to enhance our understanding of how the level of autonomy of co-operatives i.e., the focus on external versus internal governance, is explained using public interest view. For this study, first, the role of co-operative governance and accountability from the public interest perspective is critically reviewed. Subsequently, a series of interviews is conducted. The interviewees are asked about their perceptions and opinions towards understanding the level of accountability and autonomy in the co-operative industry. They are free to talk in generating broad overviews of accountability issues and how co-operatives serve the public interest.

This study used purposive sampling technique. The co-operatives were selected based on the 100 best Malaysian Co-operatives 2013, recognized by the Malaysian Co-operative Societies Commission. Five co-operatives were chosen based on the 100 best Malaysian Co-operatives list. The semi-structured interviews were conducted and the recorded interviews were transcribed in their original form. Then, the gathered data is coded using the key themes related to the research objectives. The key theme for governance, public interest, control and autonomy were based on issues raised by the interviewees during the interviews.

In order to meet the construct validity, this study uses multiple sources of evidence such as semi-structured interview and archival documentations. The interview guide was developed based on prior academic literature on governance, public interest, control and autonomy. Whilst for the internal validity, it was not applied as this study does not attempt to investigate the cause and effect relationship. This study is a theory building type of research and in order to corroborate the research findings, several representatives from co-operatives were gathered to share the findings with them. For external validity, this study has selected five co-operatives to discuss about the control and autonomy issues in co-operative governance.

Interviews can provide information about a range of ideas and feelings that individuals have about certain issues. The results of interviews are presented in uncomplicated ways using layman terminology supported by quotations from the participants. This study conducted a series of interviews with key interviewees (chief executives or managers) representing the selected co-operatives. They were purposely selected from those who have sufficient knowledge about the co-operatives, are involved in the management of co-operatives and willing to participate in the research. All meetings and discussions were conducted for between two to three hours.

With prior consent from the interviewees, all discussions were recorded. Tape recording helps to release the researcher from being too occupied writing notes during the interviews. Tape recording also helps to ensure that the evidence obtained during interviews is stored in its original form for future use and verification. For this study, tape recording is important because actual quotations are used to analyse, interpret the evidence, and present the findings. This procedure also helps to increase the validity of the findings. Interview protocols were prepared based on previous studies on accountability and public interest literature in the co-operative industry.

The objective of the interviews is to understand the governance practices of co-operatives in relation to accountability to stakeholders. The main themes investigated were accountability and the level of control in co-operatives. Details of the co-operatives involved in the study are as presented in Table 2 below.

#### RESEARCH FINDINGS AND DISCUSSION

This section discusses findings based on three main areas i.e., (a) co-operatives' accountability based on the public interest perspective, (b) understanding of co-operative accountability and governance, and finally (c) the limits to achieving accountability in co-operatives. All of the discussion is geared towards the objective of study i.e. investigating the nature of control over (and hence autonomy in) co-operatives by external governance mechanisms for the members' interest.

##### CO-OPERATIVE ACCOUNTABILITY AND THE PUBLIC INTEREST

An analysis of co-operatives from a public interest view requires us to consider: Who are the public? What are their interests? Do co-operatives serve the public's interests? Co-operatives emphasize performing obligations for the well-being of their members defined in the establishment objectives. The well-being of the members can be economic benefits or social welfare. In addition to obligations to the members, there are other stakeholders of co-operatives, such as the general community. It is well accepted that one important values of co-operatives is social responsibility and caring for others (Novkovic 2006). Consistent with

TABLE 2. List of co-operatives involved in interviews

| Co-operative | Background   |
|--------------|--|
| A            | <ul style="list-style-type: none"> <li>Co-operative A is an Apex co-operative recognized by the government to represent the Malaysia Co-operative Movement nationally and internationally. Co-operative A is a service industry and its main activity is investment.</li> <li>Its mission is to provide high quality products and services as well as protecting the interests and championing the rights of the co-operative movement through professional management.</li> </ul> |
| B            | <ul style="list-style-type: none"> <li>Co-operative B is involved in the service industry and its main activities are buying and selling marine products and offering an assortment of financial services.</li> <li>It provides financing for education, vehicles and for other personal uses. It also offers corporate financing for businesses in need of capital.</li> </ul>  |
| C            | <ul style="list-style-type: none"> <li>Co-operative C's mission is to improve services, products and business to further the economic interests of its members, employees and stakeholders in accordance with the principles and values of co-operatives.</li> <li>It is involved in the consumer industry. Currently, it provides credit services to their members, <i>Ar-Rahnu</i><sup>5</sup> franchise and cattle breed and investment activity.</li> </ul>                    |
| D            | <ul style="list-style-type: none"> <li>Co-operative D is a manufacturer of consumer goods and marketing agent for members' products.</li> <li>It also provides employment and business opportunities for members, spouses and members' children, and also for the local community in order to reduce the poverty rate among the local community.</li> </ul>  |
| E            | <ul style="list-style-type: none"> <li>Co-operative E is the parent body of the smallholders (farmers) co-operatives. It is an umbrella to other co-operatives, ranked as medium (the state level) and basic (district / territory level).</li> <li>It is a government statutory body.</li> </ul>  |

this, the seventh principle of co-operatives states that co-operatives work for the sustainable development of their communities through policies approved by their members (Co-operative Societies Act 1993; Novkovic 2006).<sup>6</sup> As such, not only are co-operatives responsible to the members (who can be classified as the primary stakeholders), but they are also responsible to the community (secondary stakeholders). Usually co-operatives are established within certain communities, such as among the employees of certain organizations such as Tenaga Nasional Berhad and Malaysian Airline System, participants of certain plantation projects such as FELDA, RISDA or FELCRA or communities of certain areas. Thus, the co-operative is expected to be accountable not only towards its members, but also to the community within which the co-operative is established. This is how the co-operative gains its legitimacy and this view is consistent with consensualist theories. An example of this view taken from this study:

“... this co-operative is accountable to its members ... 256,000 members ... Accountable to community A as a whole ...”  
(Chief Executive from Co-operative A)

“...In any co-operative including ours, we are accountable to the members... But more important is accountable to God. God sees what we do”  
(Chief Executive from Co-operative C)

“... accountability in co-operative is the most important, because we have to remember that we hold members' money. Hence, accountability is very important, not only important to the management level, but also at every level...”  
(Chief Executive from Co-operative D)

Similar comment was also recorded for co-operative C and D. However, their responses do not suggest that accountability toward the general public. In other words, co-operatives pursue social objectives which are confined to their members that represents a significant portion of specific community. Pursuing general social objectives that may lower benefits to members is perhaps secondary to the management and members of co-operatives.

In addition to the views on stakeholders or the public, it is also important to determine what interests exist in a co-operative. The actual role of co-operatives determines whether their behaviour can be explained by normative theories, i.e., when they serve the majority population with public-defined interests, or by consensualist theories, i.e., when a significant proportion of the population's interests is served. Turnbull's (1994, 1995) analysis of the governance model found that there are three distinct interest groups in co-operatives: (1) the workers (in pursuing social and family interests); (2) the governors (engaged in governing practices); and (3) the managers (in organizing production practices). These interests could converge resulting in long term sustainability of the entity, or could also conflict with each other. Consistent with an argument that is popularly used in agency theory, managers may have the incentives to maximize their wealth at the expense of the co-operative members. Therefore, sufficient rules and regulations as well as good governance in co-operatives are needed. When asked about accountabilities of co-operatives, the focus group discussion suggests:

“First ... Dividend is distributed ... The second aspect is we did like joint venture business, example, if we buy palm fruit (from members) and we distribute profit on 70-30 basis.”  
(Chief Executive from Co-operative B)

It appears, not only in co-operative B, but most of the interviewees mentioned that the main focus of members is on getting dividend. Therefore, the focus of the management on giving out dividend is actually driven by the members of co-operatives. If this is the focus of members, then their demand may be fulfilled, although the co-operatives do not give other non-monetary benefits to their members.

Therefore, do co-operatives serve the public interest? Co-operatives can be seen as social enterprises<sup>7</sup> that are able to generate “more than profit” (Ridley-Duff 2008). An interviewee stated:

“Maybe due to the profit, a co-operative can be listed as the top 100 co-operatives. But when we look at the benefits to the members, it may not. . . . Now you want to investigate the benefit of business profit or the welfare of the members? We need to refer back to the concept why we establish a co-operative. Sometimes a co-operative may be seen generating very small profit but gives a lot of benefits to its members.”

(Chief Executive from Co-operative A)

These are only some of the views from this study. However, it appears from the discussion during the interviews that the main focus of co-operatives and their members is very much on profit. Co-operatives should be able to generate enough profit in order to fulfil other expectations of members and champion the community welfare they serve. The interview also suggests that some members “invest” in co-operatives (rather than being an active member) with the objective of earning high returns. This objective has become dominant in the co-operative sector and has changed the way co-operatives are managed. The focus has shifted from giving services to members and for the welfare of community to generating profit for investors. The handsome dividend, arguably, can also be seen as some kind of “benefit” to members. As such, do co-operatives remain social enterprises? Are co-operatives still concerned about community development? It appears from the data that there is a shift from being social enterprises to business enterprises that can provide financial returns to members.<sup>8</sup> This shift in focus is partly due to the demand and pressure in every annual general meeting by the members for financial returns.

Despite this phenomena, when asked about who is actually accountable, the interviewees suggest:

“... in the act... the board... that is why in the board there are secretary and treasurer... In the Annual General Meeting, the CEO will not say anything unless the explanation provided (by the secretary) is not understood...”

(Chief Executive from Co-operative B)

“There are 2 (parties who are accountable)... The management of Co-operative C and the board...”

(Chief Executive from Co-operative C)

Therefore, the management and board are responsible for the achievement of co-operatives’ objectives. Selection of competent board members is important to make sure that the board has the ability to select the best management

team and monitor them in accordance with the objectives. However, there are still many questions remaining: If the co-operative’s objective is to include contributing to the community in which the co-operative operates, how will the co-operative be held accountable to the community? Will members of the community be invited onto the Board of Directors? How will the co-operative monitor its social, economic, and environmental impacts to the community? Are the board members aware of this accountability and act accordingly? There are no easy answers for these questions. The next section discusses some of these issues.

However, control (and hence responsibility) over co-operatives is not entirely on the board members. In addition to the role of board and management, co-operatives are also governed by the law. The Co-operative Act of 1948 is the first law regarding co-operatives in Malaysia. However, following the quick changes in business environments, the act failed to act as a proper foundation for the constitution and governance of co-operatives. Consequently, the Co-operative Societies Act 1993 was enacted. The new Act unified and strengthened the legislation regarding the governance of co-operatives in the country. The Act consists of provisions on definitions, the nature of co-operatives, operational duties and privileges, members’ rights and liabilities, organization and management, assets, accounts, dissolution, investigation and other matters related to the co-operative. In addition, the Co-operative Societies Regulations 1995 were ratified to promote the effectiveness of principles and provisions of the Co-operative Societies Act 1993 (Ismail & Sarif 2010).<sup>9</sup> Additionally, to enhance the growth of co-operatives, the Malaysian Government has taken numerous actions. Among the most prominent actions is the formation of The Co-operative Administration, Law and Leadership Centre (CALL). The CALL centre is among the earliest centres formed by the Malaysian Co-operative College (Maktab Koperasi Malaysia or MKM). Its primary role is to provide assistance and training to employees and board members of co-operatives in the administrative, leadership and legal aspects of co-operatives.

Each co-operative is also governed by its own by-laws, which must be drafted when a co-operative is being established. These lay out how each co-operative is to be governed but does not prescribe everything in detail as in an operating manual. They contain the purpose of the co-operative, members, the role of the board (organization and management), meetings, assets, management of accounts and some other general matters. In addition to this, usually each co-operative also needs some other detailed and specific “rules” relating to uses of funds. These rules actually protect the funds from misappropriation and at the same time protect management from any allegation of misappropriation of funds made by members. In addition to these acts, by-laws and rules, there are numerous guidelines and circulars issued by the Malaysia Co-operative Commission to give guidance on the operations of co-operatives in Malaysia. The



guidelines and circulars are as listed in Appendix 1. It is mandatory for co-operatives to abide by the provisions in the guidelines.

As shown in Table 3 (the summary) and Appendix 1 (the details), there are numerous guidelines made available

by the Malaysian Co-operative Societies Commission to provide direction on the operations of co-operatives in Malaysia.

TABLE 3. Governance through act, by-law, rules and guidelines

|                                     | Co-operative Societies Act 1993 (Amendment 2007) |         | Rules | GP 27 | Other Guidelines and Circulars |
|-------------------------------------|--|---------|-------|-------|--------------------------------|
|                                     | Co-operative Societies Regulations 2010          | By-Laws |       |       |                                |
| <i>Co-operative's Principles</i>    |  |         |       |       |                                |
| Voluntary and open membership       | √  | √       | -     | √     | √                              |
| Democratic member control           | √  | √       | -     | √     | X                              |
| Member economic participation       | √  | √       | -     | √     | -                              |
| Autonomy and independence           | √  | √       | √     | √     | X                              |
| Education, training and information | √  | √       | √     | √     | √                              |
| Cooperation among co-operatives     | -  | -       | -     | √     | -                              |
| Concern for community               | -  | -       | -     | √     | -                              |

Notes: √ Supports, X Limits, - Not mentioned

Overall, it can be concluded that the structure of co-operative governance resembles corporate governance that is supplemented with numerous guidelines, rules and by-laws. While it is important to have some control over co-operatives to preserve public interest, excessive restrictions may limit business development and increase response time. Is the way co-operatives are monitored – i.e., democratically versus principal-agent relationship – still relevant? Should the normative approach be adopted? The most challenging task remains determining, how much control is enough?

It is not wrong to adopt corporate governance best practices in the co-operative setting because the corporate sector also emphasizes social welfare and the community as one of its important stakeholders. However, the implementation of good governance is not taken seriously enough by co-operatives. When the board members are elected democratically, there is a question on board competency and effectiveness in the co-operative sector. Directors should be evaluated for meeting attendance, participation, and the level of knowledge about issues affecting the business and community. This issue is discussed in the next section.

#### UNDERSTANDING OF CO-OPERATIVE ACCOUNTABILITY AND GOVERNANCE

One of the main elements of governance is the ownership and control structure. The ownership structure in co-operatives is similar to the more widely held ownership structures in listed firms in the United States (Pellervo 2000). Such an ownership structure has both advantages and disadvantages. First, given that one member has one

vote, any single member, despite a large investment in the co-operative, cannot predominantly make decisions. Such democratic control by members is explicitly mentioned in the focus group discussion, indicating that the process is actually implemented.

“This co-operative is governed democratically by its members according to their interests...”

“However, members must have the knowledge on who to appoint as board members...”

(Chief Executive from Co-operative A)

There is a question of whether a democratically controlled entity can fulfil its accountability. In fact, in the absence of concentrated owners who play a significant role in decision making, there is no conflict of interest between majority and minority owners (Nunnenkamp 1995). Therefore, the issue is no longer about dispersed ownership, but dispersed control. In such a structure, the member-owners can have enough confidence that the co-operative is operated consistent with the interests of all member-owners. However, in the dispersed control phenomenon, the profit may be distributed more equally through activities and other benefits among all members rather than in terms of dividends which may give greater benefits to members with large “capital investments”.<sup>10</sup> On the other hand, this scenario may also decrease the motivation of member-owners with large investments to monitor the management in making sure that the co-operative is generating handsome profit, because in the end, the profit will be distributed equally among members. This lack of monitoring incentive may manifest in terms of members’ activism in the governance process and in the end impede efficient allocation of resources in co-

operatives. Therefore, it seems that in such ownership structure, the board characteristics and the effectiveness of the board process play fundamental roles in protecting the interests of member-owners.

When asked about accountability – whether the board examines and approves co-operative strategy, examines the business plan and policies, and monitors the effectiveness of management – an officer from Co-operative C stated that the agenda is simple and direct to operational approval, such as in buying assets where the board always agrees with the decisions of management. In this scenario, it appears that the board has not been very effective in monitoring management. Usually, ineffectiveness of a board is linked to the independence and expertise of the board members. The interview raises questions about the board members' expertise. The board members are elected from among the co-operative members in the annual general meeting (AGM). If the co-operative is a farmer's co-operative, the members are most likely among the farmers, who have no background in business and management. Even though the board members are required to attend one compulsory course as a requirement for nomination, the 3-day compulsory course is claimed as not sufficient to prepare them to become an effective board member (from the interviews). There are also courses for management and board members to improve their skills, but some of them refuse to go.

“There are too many courses, Malaysian Co-operative Societies Commission cannot do more . . . It is compulsory . . . but they didn't go”

(Chief Executive from Co-operative C)

As in the corporate sector, the governance of co-operatives depends on the board of co-operative. Similar to the corporate sector, the board of the co-operative consists of several committees. Before decisions are escalated to the Malaysian Co-operative Societies Commission, all decisions must go through the board. For example:

“In Co-operative our, we have Investment Committee . . . When it is approved, the committee suggest to the board. At the same time we call the Shariáh Committee<sup>11</sup> to see the compliance to Shariáh . . . In fact, before going to the Investment Committee, there is risk management committee at the management level (to see) . . .”

(Chief Executive from Co-operative D)

Moreover, co-operatives also need to have an Internal Auditor (IA) to ensure that the activities are in line with the co-operative's by-laws and act, as well as conforming to the accepted recording methods. The IA that was previously appointed in the AGM is now appointed by the board. FGD2 Person 1 rationalises that the members are too naive in appointing who should be the internal auditor.

The discussion in this section and observations on the ground confirm our earlier argument that while co-operatives are viewed as agents of the community that should be democratically governed, their nature has changed to profit-making entities. In short, due to the fact that co-operatives can be seen as social enterprises

that are responsible for contributing to the social welfare of members and the community, there is a tendency for regulators to create an ideal standard or rules and regulations that can control the operations of co-operatives in order to safeguard public interests. Ridley-Duff (2008: 293) argues that “hierarchies and oligarchies may rapidly develop that allow elites to control resources regardless of the precise ownership and control mechanisms established”.

While such argument seems valid from an institutional policy perspective (Ridley-Duff 2008), it may inhibit entrepreneurial discourses that need a flexible, efficient and effective decision-making process to decide on the operations and finance for co-operatives, such as the mixture of investment sources and how to share the surplus. This flexibility should be monitored by an inclusive systems of governance (Ridley-Duff 2002; Wallace 2005; Brown 2006).

#### LIMITS TO ACHIEVING ACCOUNTABILITY IN CO-OPERATIVES

To add to the problem, there is frequent changes of the board members. These changes could halt progress of certain projects as indicated below:

“We have a problem whereby the board is changing every year (after the AGM). If one member (of the board) bring in a project, at certain stage of the project (still on-going) the board member is replaced by another member, the project stopped there . . . That is the main problem and it always happen”

(Chief Executive from Co-operative C)

The incompetency of the co-operative board members leads to another problem which is board dependence on management. For example:

“Board (meeting) . . . is based on what is communicated by the management, all agendas are prepared (by the management). Like I said, (the board) do not really understand what is happening in the co-operative in detail. Sometimes the board do not really care of what was brought by the management.”

(Chief Executive from Co-operative E)

Overall analysis of the problem indicates that board incompetency is a major issue in co-operatives. The process of board appointment is based on members' votes. While supporting the principle of co-operatives (democratic member control), the process often results in the inability of the board to perform its function effectively. This problem, which originates from the inability of the co-operative members to identify good directors to be appointed as board members, has resulted in the ineffectiveness of the board to serve the interests of the members and certain sections of the community. As such, it can be seen from this discussion that the root of the problem in the members' knowledge and competency to monitor the operation of the co-operative and appoint members of the board who can serve their interests.

Although the theory suggests that co-operatives are best described by consensualist theories – which suggest

more autonomy should be given based on trust, ethics and morality for co-operative governance – more regulations are expected to be implemented to secure public interests. This expectation is supported by the evidence that the Malaysian Co-operative Societies Commission is playing their role to regulate the industry through the act and regulations (see Appendix 1). Therefore, Figure 2 shows a dotted line from consensualist to regulators control.

The discussion below further supports that there is significant control from the regulator instead of co-operative members through the board.

“For example, under the credit co-operative, we have a guideline that only 30% can be invested say in properties.”

(Chief Executive from Co-operative A)

“The AGM approves (the by-law) and then we need to write application to Malaysian Co-operative Societies Commission, (and) it will review and only after 3 month Malaysian Co-operative Societies Commission will approve. Otherwise, they may ask (us) to amend the by-law again. At the end of the day Malaysian Co-operative Societies Commission . . .”

(Chief Executive from Co-operative A)

“To me monitoring is needed, it is just how fast they approve. We are on business. In business we need only one month decision. But Malaysian Co-operative Societies Commission took 3-4 months . . .”

(Chief Executive from Co-operative B)

“All (new) business decision you want to make (for example) additional investment, business project need to go through Malaysian Co-operative Societies Commission . . .”

(Chief Executive from Co-operative B)

“Ok after (AGM) approval, there is a need to look at evaluation report, market survey, analyse everything and submit. That’s how Malaysian Co-operative Societies Commission control . . .”

(Chief Executive from Co-operative B)

However, further evidence supports that some control by the regulator is needed due to the inability of the board to monitor management.

“If your co-operative has established (good governance), like us in Co-operative A, if we want to make new investment, approval (by Malaysian Co-operative Societies Commission) in 2 weeks only . . .”

(Chief Executive from Co-operative A)

“There are many things that Malaysian Co-operative Societies Commission do now which is based on their past experience. What really happened to co-operatives? Therefore, I guess this is improvement.. Perhaps it will do good to co-operatives.”

(Chief Executive from Co-operative E)

It appears from the discussion that the co-operative model does not operate fully as an autonomous entity. Co-operatives in Malaysia are not only governed by their board, but also extensively controlled by various other entities through the law, rules and guidelines. As such, co-operatives are jointly owned and democratically controlled entities with lack of autonomy power. Therefore, most small- and medium-sized co-operatives face difficulties in meeting their economic, social and cultural needs

and aspirations. This problem is exacerbated by the lack of board competency due to the electoral system of board members appointment. The government through its entities aspires to have control over co-operatives because of the inability of management and the board members to take charge of their co-operatives for the benefit of the public or specific communities. It is also a reflection of the inability of the members to choose the right board members through the electoral system. It is still a paradox whether more regulations would solve the problem of management or board incompetency. From a theoretical point of view, the public interest theory cannot fully explain the nature of co-operative governance due to lack of members’ knowledge and activism. This problem causes appointment of incompetent board members that in the end, they are not effective in monitoring over the management. Therefore, due to these two factors – lack of members’ knowledge and activism as well as appointment of incompetent board members – the monitoring of co-operatives has been taken over by regulators.

There are two main problems in the implementation of co-operative governance that emerge from the interviews: (1) a lack of professional, business and finance expertise or knowledge among the board members to the extent that the board is dependent on management, and (2) a lack of members’ knowledge and activism. The problems limit the achievement of co-operative accountability. These limits to accountability are depicted in Figure 2 below.

First, there is a lack of professional, business and finance expertise or knowledge among the board members. This fact was raised by Chief Executive from Co-operative C. The appointment of board members in the AGM is basically based on popularity and from those who actively participated in the AGM discussion, without considering their background and competence. Furthermore, Chief Executive from Co-operative C indicated that the board actually consists of representatives from geographical areas. Larger states will have more representatives than smaller states on the board. This scenario is different from board appointments in the corporate sector. In the corporate sector, it is the best practice to have nomination and compensation committees. These committees administer the process of appointing and reappointing board members and monitor board performance. The committee performs analysis (matching in terms of business operations and competency of directors) and undertakes the tasks of profiling the board, searching for potential directors and selecting directors according to track records, references and verification checks. In contrast, Malaysian Co-operative Societies Commission has issued guidelines on the process for candidates to be eligible for nomination in co-operatives. A candidate has to go through Bank Negara screening, insolvency screening and 3-day training given by Malaysian Co-operative Societies Commission (Chief executive from Co-operative C). The problem is that the short training has been not effective in raising a person’s knowledge and competency to the level required to become an effective board member.

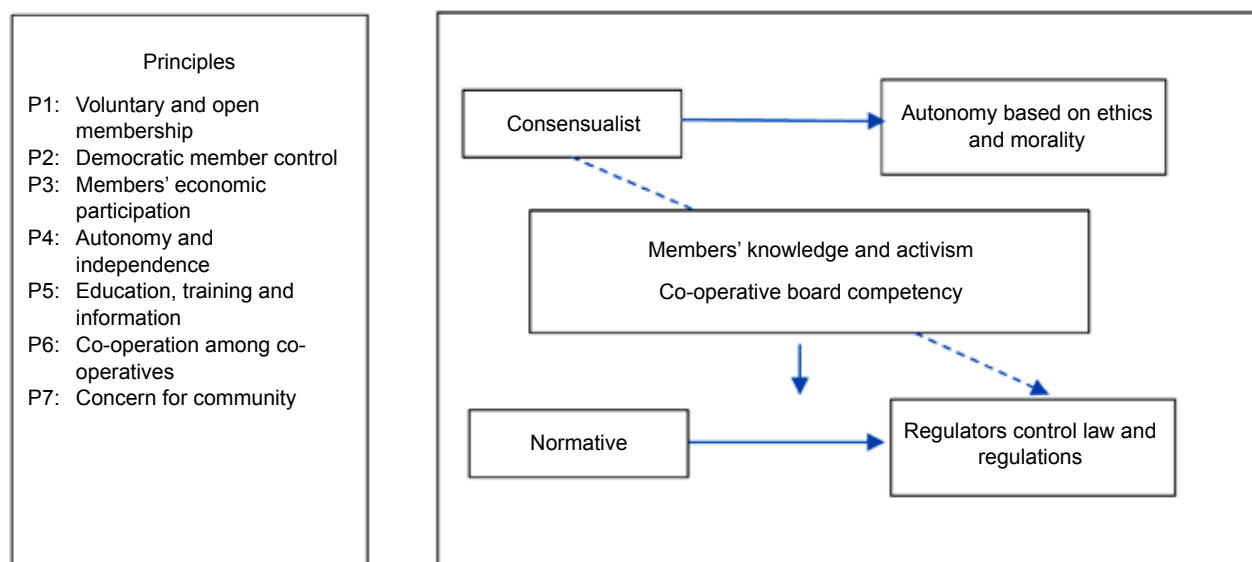


FIGURE 2. Public interest view of co-operative governance (extended from Dellaportas & Davenport 2008)

## CONCLUSION

The objectives of this study include evaluating governance practices from the public interest perspective and providing narratives of the nature of governance practices of co-operatives in Malaysia. The public interest perspective that is adapted from the political theory framework as proposed by Cochran (1974) suggests that co-operatives are responsible to their members (who can be classified as the primary stakeholders) and they are also responsible to the community (secondary stakeholders). Co-operatives, as social enterprises, are expected to generate social benefit beyond business profit. The theory suggests an autonomous governance based on trust and morality for the co-operatives to achieve their objectives. However, due to the problems of a lack competence of board members and members' knowledge and activism, there is a tendency for the government to regulate them through standards or rules and regulations that could control the operations of co-operatives in order to safeguard the public interests. Therefore, the framework provided by the theory has to be adjusted taking into account the effect of members' activism and knowledge. Further study on the nature of members' activism is needed to see the effect on governance in the future. This paper does not suggest that the current regulations on co-operatives are too excessive. This level of regulation may be needed due to the context of the current co-operative sector in Malaysia.

This study has several policy implications. Based on the analysis of the data gathered from the three roundtable meetings with five co-operatives, it appears that the development and implementation of good corporate governance practice for co-operatives is very important. This is related to the elected nature of the co-operative governing board. One important issue for co-operative boards, which is derived from their elected

status, is there is no certainty that the board will have the right skill mix and knowledge to effectively help and monitor management's decisions. This situation can be worsened by the low levels of member participation in the democratic processes due to passive investment focus of the majority of investors. If the trend of members' focus on financial return persists, the noble intention of co-operative establishment as social enterprise is at stake. From this point of view, it appears that members' expectation and participation in co-operatives need to be improved, before a more autonomous governance can be implemented. However, the nature of members' expectation and participation need to be understood before such policy can be implemented.

Thus far, the implementation of good governance is not practiced fully by co-operatives. There is a question on board effectiveness in the co-operative sector. Therefore, there is a need for effective education and training for co-operative board members as well as the members of co-operatives. Selection of board members can be facilitated through a mechanism that is based on their competency, appropriate mix of needed knowledge or experience and not merely based on popularity. A hybrid approach to the board—a mix between elected and appointed board members—can be an alternative. A competent board will choose good managers who can create value for the co-operative. Once the governance of co-operatives can be improved, some of the rules and guidelines can be relaxed and become best practices. Most decisions can be made at the board level for the benefit of co-operative, its workers, members and community it serves. Thus, business decisions can be made quickly and responsibly.

This study aims to provide a narrative of the current practice of accountability from the public interest perspective based on the views of those involved in the co-operative sector. There is no actual evaluation and

measurement of the extent of accountability performed by co-operatives. As described earlier, the responses suggest that members put more emphasis on monetary returns from co-operatives compared to non-monetary benefits. There is no proper measurement and test on this issue, which is beyond the scope of this paper.

## ENDNOTES

- <sup>1</sup> For example, co-operatives in Pakistan have played a key role in helping rural communities to curb poverty by setting up a Milk Value Chain Project to empower dairy farmers in Pakistan. Many other success stories are reported by the International Co-operative Alliance (<https://ica.coop/en/media/news>).
- <sup>2</sup> Malaysian Co-operative Societies Commission is an agency under the Ministry of Domestic Trade, Co-operative and Consumerism established to regulate the co-operative sector in the country.
- <sup>3</sup> Co-operative values are self-help, self-responsibility, equality, equity, democracy and solidarity, while the ethical values of co-operatives are honesty, openness, and social responsibility. The extent to which these values exist in co-operatives is unknown.
- <sup>4</sup> Spear et al. (2009) discuss that co-operatives are identified as social enterprise as it has social aims and social ownership. Its governance and ownership are based on participation of stakeholders and directed by a group of people representing wider group of stakeholders.
- <sup>5</sup> *Ar-Rahnu* is a form of pawn broking for short-term collateralized borrowing that follows *Shariah* i.e., Islamic procedures.
- <sup>6</sup> These values and principles are applicable to all co-operatives around the world.
- <sup>7</sup> A social enterprise is not defined by its legal status but by its nature: its social aims and outcomes; the basis on which its social mission is embedded in its structure and governance; and the way it uses the profits it generates through trading activities (New Economics Foundation/Shorebank Advisory Services 2004: 8).
- <sup>8</sup> This is particularly true in the case of co-operatives that provide personal loans to members. Under special arrangement with ANGKASA (through the salary deduction bureau), monthly payment by members can be arranged to be deducted at the employers, i.e., before the net salary to be banked in, thus, reducing default risk on the part of the co-operatives. This is why most successful co-operatives are those involved in financing activities. Angkatan Kerjasama Kebangsaan Malaysia Berhad (ANGKASA) is an apex co-operative established in 1971 to unite all co-operatives under one federation for co-operatives.
- <sup>9</sup> The latest version is the Co-operative Societies Regulation 2010.
- <sup>10</sup> Although the concept of “investments” is against co-operative principles, observations in the field suggest that members expect returns on their investment in co-operatives.
- <sup>11</sup> The role of the *Shariah* Committee is to advise the Board on *Shari'ah* (compliance to Islamic law based on the teaching of *Al-Quran*) matters in its business operations.

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## APPENDIX 1

## Guidelines issued by Malaysia co-operative commission

|        |            |  |
|--------|------------|--|
| GP28   | 01-07-2015 | Guideline on Syariah Governance  |
| GP07B  | 01-07-2015 | Guideline on giving Ibra' (Rebate) for sale-purchase type of Islamic financing   |
| GP14A  | 01-07-2015 | Guideline on the use of Section 37 Co-operative Societies Act 1993 on Representative General Meeting   |
| GP 27  | 08-04-2015 | Guideline on co-operative governance   |
| GP 26  | 25-04-2014 | Guideline on approved auditors to audit under subsection 61(1) Co-operative Societies Act 1993   |
| GP 25  | 14-02-2013 | Guideline on Islamic pawn shop activities (Ar-Rahnu)   |
| GP 24  | 04-12-2012 | Guideline on immovable property investment   |
| GP 23  | 18-10-2012 | Guideline on Co-operative Financial Statement Reporting  |
| GP 22  | 18-10-2012 | Guideline on application to pay honorarium to co-operative's board members   |
| GP 21  | 07-05-2012 | Guideline on co-operative liquidation  |
| GP 20  | 30-11-2011 | Guideline on credit co-operative federation  |
| GP 19  | 24-10-2011 | Guideline on centralized liquidation fund  |
| GP 18  | 01-09-2011 | Guideline to open co-operative's branches or subsidiaries  |
| GP 17  | 01-09-2011 | Guideline to establish, to have, to acquire or to launch subsidiaries  |
| GP 16  | 01-07-2011 | Guideline on Co-operative Investment Fund Under Section 54 operative Societies Act 1993  |
| GP 15  | 01-07-2011 | Guidelines on Micro Financing Scheme By Co-operatives  |
| GP 14  | 01-01-2011 | Guidelines for Annual General Meeting of the Co-operative  |
| GP 13  | 24-11-2010 | Guidelines on Ethics Co-operative Board Member Candidate   |
| GP 12  | 24-11-2010 | Guidelines on the Establishment of Co-operatives   |
| GP 10  | 05-05-2010 | Guidelines on Special Investment Scheme  |
| GP 09  | 05-05-2010 | Guidelines for Recruitment Special Savings And Loan Deposit or Acceptance  |
| GP 08  | 09-02-2010 | Guidelines Concerning Accounting for Grants / Assistance   |
| GP 07A | 24-12-2012 | Guideline on giving Financing Prudently  |
| GP 07  | 16-11-2009 | Guidelines on Islamic Financing by Co-operatives   |
| GP 06  | 16-11-2009 | Guidelines on Credit Facility by Co-operatives   |
| GP 05  | 15-06-2012 | Guidelines Requiring Member of the Board of Co-operatives and Internal Audit Committee Attended Co-operative Course (Amendment) Regulations 2012 |
|        | 06-03-2009 | Guidelines Requiring Member of the Board of Co-operatives and Internal Audit Committee Attended Co-operative Programs                            |
| GP 04  | 06-03-2009 | Guidelines on appointment and functions of the Internal Audit Committee  |
| GP 03  | 28-12-2012 | Guidelines for the appointment or reappointment of members of the Board of Co-operative Development (Amendment) 2012                             |
| GP 02  | 18-10-2012 | Guideline on Dividend Payment Application By Co-operatives (Amendment) 2012  |
| GP 01  | 06-11-2008 | Guidelines on the Statutory Reserve Fund under Subsection 57 (1A) and Paragraph 57 (1) (b) of the Societies Act 1993                             |

## Circulars by Malaysian co-operative societies commission

| Ref.    | Date       | Circulars  |
|---------|------------|--|
| 02-2014 | 10-04-2014 | Audited Financial Information Entry Into the Online Malaysian Co-operative Societies Commission's Application System Finance Modules |
| 01-2014 | 20-01-2014 | Bankruptcy Status Notification Member and Member of the Board of Co-operative  |
| 01-2013 | 01-04-2013 | Instructions Information and Data Entry to the System DKOOP Co-operative (Co-operative Management Data)                              |
| 01-2012 | 01-06-2012 | The implementation period of seven (7) days Compulsory Courses for Member of the Board of Co-operative                               |
| 02-2011 | 06-10-2011 | Issuance of Bonus Shares of the Statutory Reserve Fund under Paragraph 57 (1B) (b) of the Societies Act 1993                         |
| 01-2011 | 06-10-2011 | Use the Statutory Reserve Fund for Payment of Shares or Member Fees Under Paragraph 57 (1B) (a) Co-operative Societies Act 1993      |
|         |            | Guidelines on the Implementation of the Statutory Reserve Fund   |
| 01-2009 | 04-08-2009 | Guidelines on the Implementation of the Statutory Reserve Fund   |

## Circulars by the registrar of co-operatives development department

| Ref.    | Date       | Circulars   |
|---------|------------|---|
| 19-2005 | 30-07-2005 | Guidelines on the Code of Conduct for Members of the Co-operative Board , Co-operative's Officers and Employees   |
| 18-2005 | 30-07-2005 | Guidelines on Lending by Co-operative to Members  |
| 17-2005 | 30-07-2005 | Guidelines on Controlling Transactions by the Board and Employees Co-operative  |
| 16-2005 | 30-07-2005 | Internal Control Guidelines for Cooperation   |
| 15-2005 | 30-07-2005 | Guidelines for Classifying Non-Performing Loans and Provision for Bad Debts and Doubtful Debts  |
| 14-2005 | 30-07-2005 | Guidelines on Minimum Liquidity Requirements  |
| 13-2005 | 30-07-2005 | Guidelines for Capital Adequacy Ratio   |
| 12-2005 | 30-07-2005 | Guidelines for the Half Year Credit Co-operatives   |
| 11-2005 | 30-07-2005 | Guidelines on Deposit Taking or Borrow Money for Credit Co-operatives   |
| 08-2005 | 30-07-2005 | Guidelines for Preparing Documents for inspection by members of the Co-operative  |
| 07-2005 | 30-07-2005 | Guidelines for Co-operative to Open Branch Office   |
| 06-2005 | 30-07-2005 | Guidelines on Managing the Information System for Co-operatives   |
| 04-2005 | 30-07-2005 | Guidelines on Investment in shares of companies listed on Bursa Malaysia  |
| 03-2005 | 30-07-2005 | Guidelines on Investment in Subsidiary Co-operative   |
| 02-2005 | 30-07-2005 | Guidelines for the Duties and Responsibilities of Board Members Co-operative (ALK)  |
| 02-2004 | 07-01-2004 | Determination of the Registrar General Audit Fees Pursuant to Section 60 (2) of the Societies Act 1993 - (Act 502) [Regulation 27 (1) of the Regulations of Co-operatives 1995] |
| 01-2004 | 07-01-2004 | Contributions of Co-operative Education Trust Fund and Kumpulan Wang Amanah Co-operative Development Pursuant to Paragraph 57 (2) (a) and 57 (2) (b) of the Societies Act 1993  |
| 03-2003 | 15-07-2003 | Guidelines on establish, have, acquire or hold Subsidiary by Co-operative Registered for Purposes of Section 19 of the Societies Act 1993                                       |
| 02-2003 | 15-07-2003 | Guidelines for Purposes of Registered Co-operative Societies Act 1993 Section 5   |
| 01-2003 | 30-04-2003 | Management Guidelines Annual General Meeting of the Co-operative  |
| 04-1999 | 15-11-1999 | Payment to Co-operative Education Trust Fund (Sabah & Sarawak)  |
| 03-1999 | 15-11-1999 | Exemption Payment to Co-operative Education Trust Fund  |
| 02-1999 | 1999       | Fee collection According to the Co-operative Regulations (Fees) 1999  |
| 01-1998 | 1998       | Implementation Guidelines for Consumer Loan Purpose Co-operative Registered for Getting Through Salary Deduction Facilities Services Bureau (ANGKASA)                           |
| 02-1996 | 1996       | Guidelines on the Establishment of Co-operative   |

## Circulars on co-operatives administration/management development

| Ref.    | Date       | Circulars  |
|---------|------------|--|
| 03-1993 | 1993       | Co-operative's Customer charter                              |
| 02-1993 | 05-05-1993 | Guidelines on managing Co-operative's Accounting and Finance |

## Statutory directions

| Ref.    | Date       | Statutory Order /Instructions   |
|---------|------------|---|
| 03-2014 | 27-10-2014 | Transfer instructions to the Statutory Reserve Fund   |
| 02-2014 | 15-08-2014 | Payment Instructions to Co-operative Development Trust Fund                                     |
| 01-2014 | 15-08-2014 | Payment Instructions to Co-operative Education Trust Fund                                       |
| 02-2013 | 25-10-2013 | Payment Order to the Co-operative Development Trust Fund  |
| 01-2013 | 25-10-2013 | Payment Order to the Co-operative Education Trust Fund  |
| 01-2012 | 06-09-2012 | Transfer Order to the Statutory Reserve Fund under Subsection 57 (1A) of the Societies Act 1993 |
| 3-2011  | 27-07-2011 | Payment Order to the Co-operative Education Trust Fund  |
| 02-2011 | 23-03-2011 | Transfer Order to the Statutory Reserve Fund under Subsection 57 (1A) of the Societies Act 1993 |
| 01-2011 | 07-01-2011 | Dividend payments on the Shares and Members' fees   |
| 03-2009 | 11-11-2009 | Transfer Order to the Statutory Reserve Fund under Subsection 57 (1A) of the Societies Act 1993 |
| 02-2009 | 06-11-2009 | Payment Order to the Co-operative Education Trust Fund  |
| 01-2009 | 06-11-2009 | Payment Order to the Co-operative Development Trust Fund  |