

# **Entrepreneurial Characteristics Amongst Co-operatives in Malaysia – Preliminary Evidence**

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## **Abstract**

The role of co-operative is increasingly important as such an organization provides both financial and social benefits to members and the public at large. In Malaysia, despite the increasing number of co-operatives over the years, their cumulative contribution to the country's GNP is only less than one per cent. Such figure is far below the contribution of co-operatives in developed countries. In order to contribute significantly to the country economy, co-operative should behave entrepreneurially. Pertaining to this issue, the aim of this paper is to discuss the findings of a pilot study of entrepreneurial characteristics amongst co-operatives in Malaysia. The results were based from two separate pilot studies in which involved a number of co-operatives in the Klang Valley. Overall, the involved co-operatives show low entrepreneurial characteristics. The findings would provide valuable insights into the contribution of the co-operative sector to the national economy.

## **1.0 Introduction**

Co-operative is considered one of the community development tools. The involvement in business activities benefit the members as well as generate employment opportunities to members' families and local communities. There were 6084 co-operatives registered in Malaysia (Cooperative Registration Directory until December 2008), however they contributed only 1 per cent to GDP. It is considered too low as compared to Iran (6%), Vietnam (8.6%) Netherlands (10%), and Brazil (40%). This shows that the co-operatives have not played any significant role in the sector except the Bank Rakyat (Cooperative Bank). Therefore, it is timely to take an initiative to identify the productivity level of the co-operatives. To increase the productivity level, the co-operative should consider to look at the entrepreneurship process within the co-operatives. The five main entrepreneurship processes are indentifying opportunities, taking effort to reap the opportunities, carrying out necessary and appropriate activities, continuous improvement of management system and harvesting the outcomes. The objectives of co-operatives have not given emphasis on entrepreneurship although the aim was to increase the economic level of its members. The co-operatives were seen not achieving their optimum level of performance compared to their potentials. Therefore, the co-operatives should be innovative, able to take risk, able to reap

opportunities and as competitive as their counter- part, business organizations. A study to investigate the entrepreneurship level of the co-operative should be carried out. Objective of this paper is to identify the entrepreneurship level amongst the co-operatives in Malaysia.

## **2.0 Development of Co-operative Movement in Malaysia**

The International Co-operative Alliance (ICA) has defined cooperative as:

“an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.”

Based on the definition, co-operative is seen as an independent and autonomous organization that was formed by a group of people to achieve their economic and social motives. Co-operatives in Malaysia are built around the values of self-help, self-responsibility, democracy, equality, equity and solidarity (Azmah Othman & Fatimah Kari, 2008). The first co-operative established in Malaysia was the Federated Malay States Posts and Telegraphs Co-operatives Thrift and Loan Society Limited registered in July 1922 with members of 547 (Kularajah, 1969 cited in Norwatim et al., 2011). While the first in the rural communities was *Syarikat Berkerjasama-sama Kerana Meminjamkan Wang Kampung Tebuk Haji Musa, Mukim Titi Serong, Krian Dengan Tanggungan Tidak Berhad* registered in December 1923. The activities of these co-operatives were mainly for credit involved saving and providing loan to its members (<http://www.skm.gov.my/en/sejarah-gerakan-koperasi>). Although the early motives was for credit purpose, but as time changes most of the cooperatives were now involved in various business activities. The involvement of co-operatives in various business sector have created job opportunities , increase the level of income of the society and indirectly contribute to ease the unemployment and poverty problem (Norwatim et al., 2011).

Currently the co-operatives are categorized into eight functions, that are: 1. Finance; 2. Housing; 3. Consumerism; 4. Transportation; 5. Farming; 6. Industrial; 7. Construction; and 8. Service. The activities carry out by the co-operatives within the aforementioned categories are shown in Table 1.

The co-operative sector have been growing steadily from 2005-2009 with annual growth rate of 9.4 per cent in their numbers, 4.7 per cent in membership, 8.2 percent in share capital, 20.8 per cent in asset and 17 per cent in returns. According to the Malaysian Co-operative Society Commission (SKM) (<http://www.borneopost.com/2010/11/17>), results from the studies conducted by the commission from 2002 -2010 indicated that several shortcomings were many are very small set ups, lack of entrepreneurial culture and understanding on co-operative movement, and many are not managed by professionals. To overcome the shortcomings and support the co-operative to operate at higher level the Malaysian Government the National Co-operative Policy for 2011-2020. Among the strategies outlined in the new policy are business development programs, accesses to financing resources, inculcating entrepreneurship culture, updating laws and enhancing co-operative regulatory aspect. The commission aims 5 per cent contribution of co-operatives towards Gross National Product in 2013 and double up to 10 per cent in 2020.

### **3.0 Entrepreneurship in Co-operative Movement**

Social entrepreneurship has been recognized its contributions to society (Ventaraman, 1997). Entrepreneurship seen from the perspective of social welfare that is as non individualistic effort to improve social economy through innovation in market, industry, technology, institution, as well as increasing the productivity level (Haugh & Pardy, 1999). It is important for co-operative to understand and adopt entrepreneurship approach towards achieving their motives better. Previous researches in co-operative were mostly focused on the development, governance, training and performance. Raja Maimon Raja Yusof et al. (2002) studied on entrepreneurship characteristics of its managers. They found that almost all managers have the entrepreneurship qualities such as accountability, teamwork, quality for success, excellence orientation, desire for success, hard working, leaderships quality, versatile and optimistic. However, the managers' entrepreneurship characteristics not always totally reflect the entrepreneurship behavior of the co-operatives as the whole. Therefore a study to investigate the entrepreneurship behavior of the co-operatives should be carried out. In this study, the co-operative were evaluated based on the six domains of entrepreneurship that are: innovation; direction; risk taking; identifying of opportunities; efficiency of resource management; and entrepreneurship culture.

### **4.0 Methodology**

Data collection sessions was conducted in April and May in 2009 at the Co-operative College in Selangor. In order to facilitate accessibility of co-operative, only those around Klang Valley were invited to participate in the pilot study.

Two pilot studies were conducted in April and May. In the first data collection involved seven co-operatives and the following data collection involved additional 21 cooperatives. In order to ensure consistency and validity of the study in the both data collection the same procedures were followed. In the early meeting the heads of researchers gave a briefing about the aim of the study. Then the enumerators guided all respondents to answer all the questions in the questionnaire. Such a guided survey was applied to ensure that respondents could easily asked enumerators and researchers for further explanation when they encountered difficulties in answering the questions. Altogether both data collection involved 28 cooperatives. According to Sudman (1976) acceptable size of sample for pilot study between 20 – 30.

The respondents took about an hour to answer all questions asked. They were also given opportunity to comment and give suggestion to the questions in order to increase the validity and reliability of the questionnaire. The inputs will be considered to for final version of the questionnaire.

### **5.0 Result**

#### **5.1 Profile of the Co-operatives**

Table 2 shows that the age most of the cooperatives (75%) were more than 10 years, where by 42.3% were registered more than 19 years ago. About 60% of the co-operatives were small with less than 500 members, 26.5% have more than 1000 members. Total shares were considered small where 77.2% with less than RM 1million and only 5.6% collected more than RM 10millions. Total asset of the co-operatives seems to be small, where most of them (72.5%) have less than RM1 million worth of asset.

Table 3 shows the management profile of the co-operatives. Main activities carried out by the co-operative were credit and finance, consumer and services. A large amount of the co-operatives (37.9%) involved in financial and credit activities, followed by consumer (27.6%) and service (27.6%) activities. There were only a small number (3.9%) involved in industrial activities. Most of the co-operatives (71.4) hired less than 20 employees. The co-operatives were managed by the Board of Directors (42.9%) or manager (42.9%) and only 14.3 managed by Chief Executive Officers.

Majority of the managers of the co-operative were mature male (75%) more than forty years old (Table 4). A large number of them (42.9%) were above 50 year old and followed by 39.3% between 41 and 50 year old. They were experienced managers where most of them have managed the co-operative more than six years, 28.6% (6 to 10 years), 14.3% (10 to 15 years), and 25% (more than 16 years) while 32.1% considered new managers with less than five years of experience. Majority of the managers were educated, 37 % hold bachelor degree and 33.3% with diploma or at least high school education certificate.

## **5.2 Entrepreneurial Characteristics**

### **5.2.1 Innovation**

Table 5 illustrates the innovation amongst the co-operative. About two-third (67.9%) of the respondents mentioned that they have introduced new product or service within the last three years. However, about the same number (66.7%) had admit that they have not engaged in any research and development initiatives, and interestingly one-third of them had initiatives. Almost all of the respondents (96.4%) mentioned their co-operatives provide special channel for members to forward business ideas. However, more than 60% of the co-operatives did not acknowledge new ideas and the internal environment was not conducive in promoting innovating ideas.

Type of innovation within the cooperatives is shown in Table 6. Among the innovation created within the co-operatives were in credit, retail businesses and travel activities. Other new products introduced recently were in insurance, petrol station, food, and manufacturing sectors. Main development initiative introduced new element in budgeting (63.6%) and emphasizing in providing training to employees (45.5%) and establishing a special committee to look after certain task (30%). The channels provided to forward ideas were traditional,

mostly in the Annual General Meeting (71.4%) and branch Representative Meeting (63%) letters (51.9%) and suggestion box (18.5%). Interestingly, new channel has been used that is email/short messaging service (51.9%). Some forms of rewards were introduced to acknowledge good new ideas to members such as monetary (30%), and non monetary (50%).

### **5.2.2 Direction**

All respondents agreed that the motive of co-operative established was to increase socio-economic state of the members. The direct of the co-operatives is shown in Table 7. Majority of the co-operatives (85.75) have their vision and mission in written form (64.0%). The statements of vision and mission were being displayed (48%) somewhere and mostly have been disseminated (84%) to all members. The vision and mission were shared and communicated to the members through Annual General Meeting (90.5%), bulletin (42.9%), displayed on notice board (33%), electronic communication (33%), explanation and interpretation (9.5%). The vision and mission have been reviewed by considerably large number of co-operatives (44%) at least one time (50%) or twice (40%). The processes of establishing the vision and mission statement involved consultation with most of the stakeholders, that were Board of Directors (84%), Annual General Meeting (36%), management team (56%) and others like, Malaysian Co-operative Society Commission, and special committee.

### **5.2.3 Risk Taking**

Most of the co-operatives were reluctant to take risk in financing their projects. Table 8 shows that 78.6% of the co-operatives did not consider external source to finance their projects within the last three years. They did not take risk to manage a challenging size of investment (87.5%) and prefer to retain earning (96.4%) rather than reinvestment. The co-operatives were also tend too conservative and pre-cautious (85.7%) in determining and evaluating investment decision. Only a small number of co-operative were considerable risk taker that were using external finance (21.4%), managing challenging investment size (12.5%). Most of the co-operatives tend to invest in the low risk type of investments such as acquisition of fixed asset (50%) and fixed deposit (92.6%).

### **5.2.4 Identifying Opportunities**

When asked about sensitivity on identifying opportunities, most of the respondents at least somewhat agree that they were sensitive, almost 40% mentioned sensitive and 42.9% were very sensitive. Sensitivity towards the changes of the environment and business opportunities is shown in Table 9. Co-operatives seemed to not capitalizing changes in business environment could create business opportunities. Majority of the respondents mentioned they were sensitive and realized that changes in the government policies (71.34%) creates opportunities to the co-operatives, changes in social environments leads to some opportunities (46.4%). The policies changes were the like of the new National Policy for Co-operative movement. Changes in the social environment were such like the current trend and the increased of population in the area of the co-operative is serving. However,

changes in legal environment (66.7%), political (87.5%) and technological changes (70.8%) did not provide any business opportunities to them.

### **5.2.5 Efficiency of Resource Management**

Table 10 shows how co-operatives acquire, utilize and maintain their assets. About two-third of the co-operative financed their assets through internal financing (67.9%), 35.7% financed by commercial bank, 25% from the government funding or grant. Interestingly co-operative utilized their assets to generate income. The income generated from rental (57.1%), provide credit facilities (53.6%), as form of investment (50%) and provide service (35.7%). More than half (57%) mentioned they have scheduled fixed asset maintenance, while the rest did not performed maintenance regularly.

### **5.2.6 Entrepreneurship Culture**

Co-operatives report to inculcate entrepreneurship culture within. Table 11 shows the cooperative effort to inculcate entrepreneurship culture. There were programs carried out and conducted to provide understanding and knowledge in entrepreneurship (46.4%). Some of the co-operatives provide entrepreneurship opportunities to their member through renting (39.35), agency (39.3%), supplying (32.1%) and sub-contracting (28.6%). The co-operatives at least somewhat agree that they were involved in the entrepreneurship programs organized by the government. Most of the co-operatives (64.3%) provide assistance in advising (42.9%) and financing (42.9%), and training (25%) to the members.

## **6.0 Conclusion**

The co-operatives in Malaysia are considered entrepreneurial with mixed entrepreneurship characteristics. About two-third having some innovation by introducing new services or new product in the last three years and provide special channel for members to suggest new ideas but R&D activities were very low. All co-operatives established with motive to up lift members socio- economic status and most of them having set their direction by vision and mission that has been shared. They however, are low in risk taking since using equity as sources of funding project and opted for secured investment. The process of identifying new opportunities and efficiency in resource management were moderate. They at least utilizing the fixed assets to generate income and performed assets maintenance. Interestingly, entrepreneurship culture has been inculcated in some of the co-operatives through the program conducted, business opportunities given to its members and offers some type of assistance to the members. In order to increase the entrepreneurship level, the co-operatives should consider making some changes in making decision on investment by taking calculated risk. It is understood that higher risk will bring higher return to the investor. Furthermore the establishing a committee or task force to identify opportunities is crucial.

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Table 1: Functions and activities of co-operatives

<b>Function</b>	<b>Activities</b>
Finance	Provide loan to members; banking; investment; insurance service; Islamic pawn and mortgage
Housing	Carry out housing project; selling low and medium houses to members at lower than market prices
Consumerism	Assist member in acquiring quality goods at reasonable prices; operates mini markets; supermarkets; groceries shops; petrol kiosk; convenience shops; etc
Transportation	Transporting corps to processing plants; taxi; bus; truck
Farming	Carry out development and management activities of agriculture lands. Major crops are rubber; oil palm; pineapples; cocoa; and vegetables
Industrial	Carry out small scale industrial activities, also known as Village Industry Co-operative. Production, marketing and making woven products, pottery, and silver decorative items and furniture
Construction	Carry out construction activities of infrastructure such as small bridges, roads and general maintenance

Service	Carry out other activities such as management of funds, maintenance of buildings and residential areas, rental of buildings/ stall lots, child care centers, computer classes, bill payment centers, and the likes
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Source: Suruhanjaya Koperasi Malaysia

Table 2: Profile of Co-operative

Profil		Frequency	Percentage (%)
Year of Reg/age	Before independence/42<	55	11.9
	1957-1980/ 19 -42 yrs	141	30.4
	1981-2004/5-18 yrs	244	52.6
	After 2004/< 5 yrs	24	5.2
	Total	464	100
Members	< 500	276	59.4
	501-1000	66	14.2
	>1,000	123	26.5
	Total	465	100
Shares	< RM 1 million	250	77.2
	RM1- RM10million	56	17.3
	> 10million	18	5.6
	Total		
Asset	< RM 1million	337	72.5
	RM1 juta –RM10million	96	20.6
	>RM10million	32	6.9
	Total	465	100

Table 3: Profile of Co-operative Management

		Frequency	Percentage (%)
Main activity	Credit/finance	175	37.9
	Consumer	128	27.6
	Plantation	105	22.6
	Transportation	85	18.3



	Housing	79	17.0
	Training	22	4.7
	Industrial	18	3.9
	Services	128	27.6
	Others	70	15.1
Management	Secretary/Chairman/Treasurer	12	42.9
	CEO	4	14.3
	Manager	12	42.9

Table 4: Profile of Managers

		Frequency	Percentage (%)
Length of service	≤ 5 yrs	9	32.1
	6-10 yrs	8	28.6
	11-15 yrs	4	14.3
	> 16 yrs	7	25.0
Age	31- 40 yrs	5	17.9
	41-50 yrs	11	39.3
	> 50 yrs	12	42.9
Gender	Male	21	75
	Female	7	25
Education Level	MCE	5	18.5
	Certificate	2	7.4
	Diploma/HSC	9	33.3
	Bachelor	10	37
	Master	1	3.7

Table 5: Innovation activities

Innovation		F	%
Introduce new product/service in the last three years	Yes	19	67.9
	No	9	32.1
R & D activities by co-operative	Yes	9	33.3

		18	
	No		66.7
Provide special channel to promote new ideas	Yes	27	96.4
	No	1	3.6
Conducive internal environment to promote new ideas. Acknowledge the new ideas	Yes	11	39.3
	No	17	60.7

Table 6: Type of Innovation

Innovation		F	%
New product introduced	Credit	4	22.2
	Retailing	4	22.2
	Travel	4	22.2
	Insurance	1	5.6
	Petrol station	1	5.6
	Manufacturing	1	5.6
	Food	1	5.6
	Others	2	11.1
R & D initiative	Budget	7	63.6
	Training	5	45.5
	Special Committee	Task 3	30
	Others	3	30
Special channel to promote new ideas	AGM	20	71.4
	Branch meeting	rep. 17	63.0
		14	51.9
	Email/SMS	14	51.9
	Letter	5	18.5

	Suggestion Box	5	18.5
	Others		
Acknowledgement of new ideas	Non monetary	5	50
	monetary	3	30
	Others	2	20

Table 7: Direct, Vision and Mission

Direction		Frequency	Percentage(%)
Established to increase member socio-economic state	Yes	28	100
	No	0	0
Existing of Vision and Mission	Yes	24	85.7
	Written	16	64.0
	Display	12	48.0
	Disemminate	21	84.0
	No	4	14.3
Method of Dissemination	Elektronic	7	33.0
	Explanation	5	23.8
	Special Meeting	2	9.5
	Notice Board	7	33.3
	Buletin	9	42.9
	AGM	19	90.5
Review of Vision and Mission	Yes	11	44.0
	No	14	56.0
Time of review	1 time	5	50.0
	2 times	4	40.0
	3 times	1	10.0
Involvement of parties in preparing Vission and Mission	Board Meeting	21	84.0
	AGM	9	36.0
	Management	14	56.0
	Team	2	8.0
	CooperativeColle	2	8.0
	ge	4	16.0
	Consultant		

Special Committe	5	20.0
Co-operative Comm ANGKASA	1	4.0

Table 8: Risk Taking amongst Co-operative

Risk		Frequency	Percentage (%)
Use external financing int the last three years	Yes	6	21.4
	No	22	78.6
Challenging size of investment	Yes	1	12.5
	No	7	87.5
Tendency to retain the earning	Yes	27	96.4
	No	1	3.6
Evaluation of project base on specific criteria	Yes	24	85.7
	No	4	14.3
Types of investment	Subsidiary	1	16.7
	Loan settlement	1	16.7
	Fixed asset	3	50.0
	Business capital	1	16.7
Types of saving	Fixed Deposit	25	92.6
	Trust unit	10	38.5
	Listed share	8	30.8
	Unlisted share	3	11.5
	Listed share	1	3.8

Table 9: Changes in Business Environment

Changes in environment		Frequency	Percentage (%)
Government policy	Yes	20	71.4
	No	4	14.3
Social changes	Yes	13	46.4
	No	11	39.3
Legal	Yes	8	33.3
	No	16	66.7
Politics	Yes	3	12.5
	No	21	87.5
Technology	Yes	7	29.2
	No	17	70.8

Table 10: Resource Management

Resource		Frequency	Percentage (%)
Asset	Loan from Commercial Bank	10	35.7
	Government Grant	2	7.1
	Loan/ Comm. grant	7	25
	Internal Financing	19	67.9
	Others	6	21.4
Generating income from asset	Rental	16	57.1
	Investment	14	50.0
	Service	10	35.7
	Lending	15	53.6
Asset scheduled maintenance	Yes	16	57.1
	No	11	39.3

Table 11: Entrepreneurship Culture

Inculcating of entrepreneurship culture	N	Frequency
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Conduct entrepreneurship program to provide and knowledge and understand	Yes	13	46.4
	No	15	53.6
Provide opportunities to members	Sub-contracting	8	28.6
	Renting	11	39.3
	Agency	11	39.3
	Supplying	9	32.1
	Others	1	3.6
Involvement in entrepreneurship program organized by government	Very Agree	5	17.9
	Agree	16	57.1
	Smoeewhat agree	4	14.3
	Disagree	2	7.1
	Very disagree	1	3.6
Provide advising and financing assistance	Yes	18	64.3
	No	10	35.7
Type of assistance	Financing	12	42.9
	Advising	12	42.9
	Training	7	25.0
	Others	3	3.6

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