THE EFFECTS OF STRATEGIC MANAGEMENT PRACTICES ON COOPERATIVE PERFORMANCE: THE MALAYSIAN INSIGHT

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ABSTRACT

The strategic management practices play an important role in determining effective organizational management, hence, ensuring a successful aspect in an organization. One of the sectors that is given the least research attention from the aspect of strategic management is the co-operative sector. For a developing country like Malaysia, the co-operative sector is the third most important sector after the public and private sectors, which has become more significant in the country's economic and social aspects. Unfortunately, cooperatives have been seen struggling to maintain their performance in today's competitive business atmosphere. Despite some researchers have proven that strategic management practices have resulted in increased performance, yet there has been relatively little study of this evidence in small organizations like cooperatives. Thus, a series of three case studies were performed to establish the effect of strategic management practices on the performance of cooperatives. From the findings, three propositions (strategy formulation, strategy implementation, evaluation and control) based on the strategic management practices were confirmed to be affecting the performance of cooperatives in Malaysia. Further, this study has contributed new knowledge in cooperative literature in relation with cooperative performance explained by strategic management practices.

Keywords: Cooperative, Cooperative Performance, Strategy, Strategic Management Practices.

INTRODUCTION

Cooperatives are established organizations with the aim of producing goods and delivering services, to satisfy the legitimate needs of members and also to promote cooperation, relations, participations and interpersonal connection (Shamsuddin et al., 2018). Today, more than one billion people have joined the cooperative movements worldwide, with more than 100 million job creation and USD 2.1 trillion worth of wealth (International Cooperative Alliance, 2020). In this case, cooperatives commit to social principles and values, together with the aim to make profit (Sebhatu et al., 2020). On top of that, cooperative entities have also been seen as a big potential in making social and economic changes, reducing unemployment and poverty rate, and overall increasing the living standards of people around the world (Humphries et al., 2018). In the Malaysian context, the significant of this organization was established in 1980 with the introduction of “New Era of Cooperative” by the government of Malaysia in making cooperative movement more progressive, dynamic and successful (Idris & Safaai, 2012).
Cooperatives in Malaysia are regulated under the Malaysian Commission of Co-operatives, or also known as Suruhanjaya Koperasi Malaysia (SKM) (Sallehuddin et al., 2018), which previously placed under the Ministry of Domestic Trade, Co-operatives and Consumerism (MDTCC), and currently under the Ministry of Entrepreneur Development and Cooperatives (MEDAC). There are currently 14,417 cooperatives registered in this country covering nine important sectors, namely the banking, credit, agricultural, housing, industrial, consumer, construction, transportation, and services sector (SKM, 2019). Furthermore, the introduction to the National Co-operative Policy I (2002-2010) and National Co-operative Policy II (2011-2020) is seen as an effort by the government to set a direction for the cooperative societies in Malaysia (SKM & KPDNKK, 2010).

Although Malaysia has a large number of registered cooperatives, the movement of cooperatives society in this country is still considered less developed as compared with other countries (Ahmad Khan et al., 2016). This is because 31 percent of registered cooperatives in Malaysia are placed in the non-active and dormant category (SKM, 2019). In this case, the importance of management aspects, particularly the strategic management practices need to be addressed to improve the overall planning and management of the cooperative societies. This is following the finding from past research that suggest the differences in performance can be explained by the management of cooperatives (Sebhatu et al., 2020; Ismail et al., 2019; Fanasch & Frick, 2018). Although cooperatives are known of their economic importance, very little is known about the characteristics distinguishing successful from poorly performing cooperatives (Fanasch & Frick, 2018).

Therefore, this paper seeks to establish how strategic management practices can affect the performance of cooperatives in Malaysia. In particular, three research questions were developed which also enable the researchers to decide on the research objectives of this study. Therefore the research questions have been identified as (i) how does the strategy formulation process affects the performance of cooperatives?, (ii) to what extend the strategy implementation phase affects the performance of cooperatives? and (iii) what is the effects of the evaluation and control process on cooperative performance?. Further the objectives of this study has been developed as (i) to analyse the effects of strategy formulation process on cooperative performance, (ii) to explore the effects of strategy implementation phase on cooperative performance, and (iii) to establish the effects of evaluation and control process on the performance of cooperatives. This paper will initially explore the existing literature on strategic management practices and cooperative performance, followed by a description of the method. The result will then be presented before the findings are considered and conclusion and recommendations are made.

**LITERATURE REVIEW**

The Resource Based Theory (RBT) will be the fundamental in discussing the aspects of strategic management practices and cooperative performance in this study. RBT developed by Penrose (1959) emphasized that firms owning the productive managerial resources would gain the highest organizational growth and profitability. In relation with resource-based perspective, the growth of an organization internally and externally depends on the way the resources owned are being employed. According to Barney (1991), resources enable organization to achieve improved performance both in the short term and in the long run. In this case, resources that are valuable and rare will attain competitive advantage and help to improve the performance of an organization.
The strategic management practices have been established as a crucial aspect in determining the performance of an organization (Loncar, 2017; Benos et al., 2016). In the context of various nations and industries, strategic management practices are also considered as an ongoing issue and topic of discussion among scholars (Fuertes et al., 2020; Mohamed et al., 2019; Sarker & Rahman, 2018). Thus, according to Chandler (1962) strategy is the definition of the long-term goals and objectives of an organization, the adoption of action, and the allocation of resources needed for the achievement of the objectives. Thus in the context of cooperatives, the three strategic management phases, namely strategy formulation, strategy implementation and evaluation and control has been proven to contribute to the success of these entities as shown in previous research by Mang’ana et al. (2017) and Loera (2014).

Accordingly, Peppard and Ward (2016) argued that organizational strategy must define where the organization wants to be in the future, taking into account the options, resources, alternatives and need. In this case, in order for organizations to create strategies, it must first identify and understand the internal resources, capabilities, strength and weakness own by them (Barney, 1991). Nevertheless, past research has also revealed that strategy formulation process in cooperatives are of no different from other types of organizations where it is done formally by taking into account the view and involvement of all stakeholders in cooperatives (Ismail et al., 2019; Loera, 2014; Aini et al., 2012). The use of management tools, especially the SWOT analysis has also been reported to help in the strategy creation phase in cooperatives (Barati et al., 2017; Hendriani, 2016).

Next, the strategy implementation phase is known to affect performance in organizations as it has the ability to convert ideas into actionable programmes in order to fulfil the objectives of an organization (Pearce & Robinson, 2013). On the other hand, a good strategy formulation process does not always guarantee the strategy implementation process to be successful (Alharthy et al., 2017; Beyene et al., 2016). This statement is in line with the findings of Cater & Pucko (2010), who claimed that about 80 percent of organization have the right strategies, but only 14 percent of them have managed to implement them well. Nevertheless, the strategy implementation phase has been reported to be well practiced in cooperatives, effecting to good performance level in these entities (Ismail et al., 2019; Aini et al., 2012).

The monitoring, evaluation and control process also play an important role in making the strategic management practices a successful plan (Monday et al., 2015). This phase is developed to assess the effectiveness of the strategy development and implementation stage and its effect on the organization (Fuertes et al., 2020). Hieu & Nwachukwu (2019) found that the evaluation and control process enable organizations to identify factors that hinders objective attainment, while Monday et al. (2015) argued that evaluation and control stage helps organizations to do a comparison between what was planned and what is achieved in the context of performance. Previous studies also revealed that this stage in strategic management practices benefited cooperatives in a good financial, social and management aspects (Abd Rahman & Zakaria, 2019), while Rasit & Ibrahim (2018); Grashuis (2018) and Benos et al. (2016) in their research work has recorded improvement of performance, life cycle and success of cooperatives due to the practice of evaluation and control process. However, on the other side, failing to practice this process has caused failure in projects and activities that was carried out by cooperatives (Shava & Hofisi, 2019).

On the other hand, Pun & White (2005) mentioned that measuring performance plays a very important role in translating strategy into results. Moreover, performance measurement is difficult when what has to be measured keep changing and is undecided. This is also the case
when measuring the performance of cooperatives which is seen as a challenging task, as this involve the measuring of both social and economic aspects of these entities (Hendriani, 2016). Thus, Sushila et al. (2009) argued that in the effort to sustain a good performance level of cooperatives in the future, it is important to understand that the financial measurement itself is not sufficient and this must be accompanied by using the non-financial method. This view is supported by Maria et al. (2019), who categorized successful cooperatives into those which manage to fulfil their business and social goals. Therefore, the use of financial and non-financial indicators in evaluating the cooperative performance is important in the effort to determine the best option in evaluating the aspect of performance (Shamsuddin et al., 2018). In this case, many past researchers have agreed on the use of the financial and non-financial indicators when measuring the performance of cooperatives (Kusmiati et al., 2019; Janudin et al., 2018; Anania & Rweka, 2016).

**METHODOLOGY**

This study is conducted by using a case study methodology involving three cooperatives in Malaysia which were listed among the top 100 cooperatives in year 2019 by the Malaysian Commission of Co-operatives. In this study, cross-case analysis is also used. Case study is a research strategy that involves the empirical investigation of a phenomenon within its real-life context using multiple sources of evidence (Saunders et al., 2019). The use of case study approach is appropriate when one needs to understand a particular issue in depth manner (Yaakob et al., 2019). This study also includes the use of triangulation approach to confirm the findings (Natow, 2019). Triangulation is the process of gathering information from diverse sources and different perspectives (Yaakob et al., 2019). In this study, triangulation starts from the process of document analysis, moving on to semi-structured interviews and finally some observation on strategic management practices and their documentation. The use of triangulation is supported by Natow (2019), who found that triangulation was a common method used in studies that involved interviews. In order for researchers in this study to come out with the provisional propositions, constant comparison method is applied, which enables empirical findings to provide opportunities for theorizing comparisons between three cooperatives in this study and to generate deeper understanding of strategic management practices in these organizations (Kasabov, 2015). The outcome of this study will be discussed in the following section.

**RESULTS AND DISCUSSION**

In order to confirm the existence of strategic management practices in three participating cooperatives, we first decided to examine few documentations related to this practice with the agreement of the management personnel. Among the documents inspected were annual statements, financial reports, audit reports, and minutes for meetings and events. It was found that all three cooperatives have prepared these documents (at least for the period of past three years) according to the requirements by the Malaysian Commission of Co-operatives. This finding is in line with the outcome of previous study of Huang et al. (2015), who also found that majority cooperatives in Malaysia have prepared and published their respective documentation which included the financial statement in the annual reports. Moreover, Williams et al. (2019) and Pathak & Kumar (2008) found that financial management which included the preparation of proper documentations was the key factor contributing towards the successful performance of
cooperatives. Next, we also investigated whether these three cooperatives in our study have prepared their mission and vision statements. Respective to this, we found that two out of the three cooperatives have prepared a complete set of mission and vision statement which are also communicated throughout the entire organization. Our finding supports the work of Syarifah et al. (2013), who found the mission and vision statement to be an important communication and management tools in cooperatives. Further we provide the profile of three cooperatives involved in this study as in Table 1 below:

<table>
<thead>
<tr>
<th>Cooperative</th>
<th>Year of Establishment</th>
<th>Product/Services Provided</th>
<th>Annual Turnover (RM)</th>
<th>Cluster</th>
</tr>
</thead>
<tbody>
<tr>
<td>C1</td>
<td>1969</td>
<td>Loans, credits, financial services</td>
<td>1 million to 5 million</td>
<td>Medium</td>
</tr>
<tr>
<td>C2</td>
<td>1923</td>
<td>Financial services, Ar-Rahnu, tourism</td>
<td>More than 5 million</td>
<td>Big</td>
</tr>
<tr>
<td>C3</td>
<td>1984</td>
<td>Loans, credits, financial services</td>
<td>Less than 1 million</td>
<td>Small</td>
</tr>
</tbody>
</table>

Next, an interview session was conducted involving a member of the board of each cooperative. In order for the researchers to fulfil the first objective of this study, which is to explore the effects of strategy formulation process on cooperative performance, participants were asked few questions. Among the questions are, if their cooperative is practicing the strategy formulation process formally, how this process is carried out, and if the strategy formulation activities has any effect on the performance of their cooperative. Most of the participants agreed that the strategy formulation is a formal process in their respective organization and has a significant effect on the performance of their cooperative. For example, one of the participants (C2) said that:

“We were trained and taught what strategy creation is all about, how it is to be done in the best way and the benefits of carrying out this process in our organization. I enjoyed attending the courses and seminars conducted by ANGKASA and Malaysian Co-operative Commission as there are a lot more for us to learn. Strategy formulation matters will be discussed in our annual meetings, as well in our board of cooperative meeting. I believe this has something to do with our increasing performance”.

This statement was also supported by another participant, who shared to us about his positive experience regarding strategy formulation phase in his cooperative. Respective to this, participant C1 shared that:

“The management of this cooperative normally create strategies based on what we are planning to achieve, as what is wanted by our members. This process can be difficult as every one has their own ideas, but at the end of the day we only consider the best idea to be included in our strategy formulation process. We normally get together during meetings to discuss this matter. A good strategy created will result in a good outcome, that’s for sure”.

Therefore, it is also noted in previous studies that cooperatives in the past has the ability to create their own strategies freely by focusing on the areas that fit its need. On top of that, Aini et al. (2012) found that members opinion and ideas during the annual meeting are essential for the growth of cooperatives in Malaysia. This is in line with the findings of Othman et al. (2012), who found that members attending the cooperative annual general meeting are one to three times more likely to contribute to the performance of their cooperatives. Thus, based on the discussion, the first proposition is proposed as below:
Moving on to the second research objective, is to identify the effects of strategy implementation phase in cooperatives on its performance. In this case, participants were asked if they implemented the strategies that they created, how this process is done, who is involved in this phase, and what are the effects of strategy implementation phase to the performance of their cooperatives. All three participants gave a positive feedback regarding this matter, as example of what is stated by participant C1 as below:

“When we formulate strategies in our organization, we don’t just stop there. We continue by implementing the strategies that we have created. Only then we get the benefit of creating a strategy, won’t we? So we get everyone to be involved in this, especially our management personnel, our workers and also our members. We develop programmes, either new or we improve our current ones in order to make our strategies work. It is a challenging task, but when we look at the positive side, on how this phase can improve our performance, then we make it happen”.

Another participant of a cooperative (C3), has also responded in line with what is said by participant C1, who also believes that strategy implementation process takes place in their organization and has a positive impact on the outcome:

“Yes, we implement our strategies based on our plan and vision that we have stated before. As you have checked our documentations, you must have realized that we have planned our activities and programmes ahead, and this is indeed a way how we make our strategies work. It is difficult to make everyone to get together to implement what we have planned, but with the good management team that we have, we manage to get it done on time. We won’t be in the list of top 100 cooperatives in Malaysia if we don’t practice this”.

Thus, this finding is also in line with previous studies which found that strategy implementation process is carried out in cooperatives and it results in increasing their performance. For example, study of Loera (2014) found that cooperatives managers are aware of the know-how and the processes that are important in order to deploy strategies, allowing their managers to have a clear picture that the strength of a cooperative are its resources. On the other hand, Baarda (2006) found that cooperatives do develop new programmes but sometimes face problems in coordinating to their activities smoothly. Strategy implementation phase in cooperatives are also found to affect the success rate and high performance in this organization as found in the previous research of Ismail et al. (2019) and Aini et al. (2012). Respective to this, the second proposition is proposed as below:

\( H_2 \)  
Cooperatives which have been implementing their strategies are more likely to achieve better performance than those who do not implement their strategies.

Further, the third research objective which is to study the effects of the evaluation and control process on cooperative performance was also highlighted in the interview session. In order to gain feedback, the cooperative board members were asked whether they have been practicing the evaluation and control process in their organization, to what extend they are involved in this phase, how do they carry out this process and if it has any effects on the performance of their organization. We noted that most participants were aware of the evaluation and control process, and how important it is in helping their cooperative to achieve a better performance. For example, one participant (C3) gave the response as below:
"The evaluation and control process are a must for us, as the commission of co-operatives have made it mandatory for us to carry out this process. That’s the reason why we have our monthly and annually auditing done and these covers many aspects including the productivity, cost and financial. Even though it is a hectic process, but we are aware of its positive outcome. If you don’t control and evaluate things, process and activities in your organization then you will never know where you are heading to. It definitely makes us better in terms of performance”.

Further we pointed out the same questions to another participant of another cooperative (C2), in order to get a more conclusive response. We found out that this participant tends to agree with the response that we got earlier from C3. Below is the outcome of the interview with C2:

"We have two board members who are appointed to look at this matter. They will do the controlling and evaluation process from time to time or as needed. Once a year we get the auditing done by independent auditors appointed from outside of our organization, and we send the report and proper documentation to the co-operative commission or else our registration will be void. The good thing with this phase is that when we practice it, we know where we are at the moment and if we are heading towards the right direction or not. The performance of our cooperative is very much depended on the practice of evaluation and controlling process”.

In respective to this, we found that our finding on this matter is similar with the work of Abd Rahman & Zakaria (2019) who discovered that the evaluation and controlling practices in cooperatives result in better financial, social, management and member’s relationship outcome. On the other hand, Rasit & Ibrahim (2018); Grashuis (2018) and Benos et al. (2016) recorded a positive and higher performance rating, life cycle, innovation and success of cooperatives in their studies, whereas Shava & Hofisi (2019) found that cooperatives failing to adhere to the good practice of evaluation and control has encountered failure in their projects and activities. Thus, Navodera & Kinyuru (2020) also stated that the application of this phase is important as it increases the ability of competitive advantages in cooperatives. Therefore, based on the above discussion, we propose the third proposition as below:

\[ H_3 \quad \text{Cooperatives which have involved in strategy evaluation and control process are more likely to achieve better performance than those who have not.} \]

Further, in order for us to confirm the outcome of the interview sessions in this study, the use of triangulation approach was also used as mentioned in the methodology part. In this case, apart from using the document analysis technique, we had also carried out some observations. Among the aspects observed was the work flow of employees and the management personnel, which in our judgement are in line with the answers given to questions asked during the interview sessions.

CONCLUSION, LIMITATION AND RECOMMENDATION

This study seize the opportunity to advance the understanding of strategic management practices in cooperatives and to explore the effects of strategic management practices on cooperatives performance in Malaysia. Based on the findings, three propositions are proposed, and this can be the evidence of strategic management practices in cooperatives in Malaysia. Based on the triangulation approach, this study also confirms the existence of a strategic management system and practices in cooperatives and the important role they play in increasing the performance of these organizations. The outcome of this study can provide a guideline to the management of cooperatives and Malaysian Co-operative Commission to further improve and
enhance the strategic management policies in support to increase the success rate of cooperatives in Malaysia.

On top of that, this study also makes a contribution to the Resource Based Theory (RBT) by supporting the perspective that a cooperative’s competitive advantage is a function of strategic management system. This study has established that strategic management practices is a form of valuable resources in cooperatives. Further this study demonstrates that growing performance is a function of successful strategic management practices. Nevertheless, this paper contributes to business and management policy by providing evidence of the effects of strategic management practices on the performance of cooperatives.

Respective to this, we would also like to highlight some limitation of this study. The proposition developed in this study has not been tested quantitatively, thus future research using a quantitative approach is much needed in this case. We also hope that studies in the future can include more numbers of cooperatives, covering more states in Malaysia, in order for a bigger generalization to be made.

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