

# **STRENGTHS, WEAKNESSES, OPPORTUNITIES AND THREATS OF COOPERATIVES IN MALAYSIA**

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## **ABSTRACT**

Cooperatives are increasingly been recognized for their social and economic contributions to the Malaysian economy. Despite their importance to the national economy, the literature review however indicates that research emphasis on these organizations remains limited and neglected in the local context. This study attempted to investigate the strengths, weaknesses, opportunities and threats faced by the cooperatives in Malaysia. The data for the study was collected from 96 cooperatives by using questionnaire. Analyses of the data collected in the study indicate that the cooperatives in Malaysia not only have various strengths and weaknesses but they also have assorted opportunities as well as face various threats.

**Keywords:** cooperatives, SWOT, Malaysia

## **INTRODUCTION**

The social and economic development in Malaysia involves different types of organizations. Apart from the involvement of the various government agencies, organizations such as small and medium-sized enterprises (SMEs), large private limited companies, public listed companies, multinational corporations, government linked companies, cooperatives and non-government organizations also contribute significantly to the social and economic development in the country. Of these organizations, cooperatives are increasing being recognized as an important source of domestic investment by the Malaysian Government.

The importance of cooperatives in Malaysia can be seen from the total amount of assets they owned and also in terms of the total revenues generated by their business activities. In terms of their assets, the Malaysia Cooperative Societies Commission (MCSC) disclosed that at the end of 2011, the cooperatives collectively owned total assets valued at RM92.8 billion (New Straits Times, September 21, 2012). More recently, the MCSC reported that about 10,000 cooperatives in the country have generated a total of RM32 billion in revenues in 2013. Their revenue is projected to be as much as RM40 billion by the year 2020 (The Star, June 24, 2013).

Collectively, cooperatives play a key role in the Malaysian economic system and also contribute significantly to the social development in the country. In terms of the value added to the national economy, their contributions are considered as important as those provided by the other business organizations. Although their business capabilities may not correspond with those of the other business organizations, they are known to make many important economic as well as social contributions. As far as the cooperatives in Malaysia are concerned, their social and economic impact on the economy can be seen in terms of their numbers, memberships, share capital, total assets, employment opportunities, the amount and value of the various goods as well as services that they provided to their members and the general public.

Interestingly, despite their important role as well as their social and economic contributions to the Malaysian economy, as a field of study, cooperatives have not received much research attention. Although there is much research and literature about the other types of business organizations, empirical studies and information concerning cooperatives remains limited. The review of past studies reveals that research in this area is relatively limited in scope, focus, and fragmented in nature. As a result, not much is known about the nature of these organizations. For instance, although they are perceived to play a key role in the economic and social development of the country, there is not much information about their operations, strengths, weaknesses, opportunities as well as the problems they faced.

Knowing and understanding the nature of their strengths, weaknesses, opportunities and threats can provide some insights into the ways in which cooperatives can be further developed to increase their social as well as economic contributions. More specifically, if this information can be captured, then this information may be useful for planning and designing more effective training and development programs to assist the cooperatives in improving their abilities to formulate as well as implement more effective business strategy.

Given that there is little information on the nature of cooperatives, this study specifically attempts to investigate their strengths, weaknesses, opportunities and problems. The cooperatives in the study involved those operating in the states of Penang, Kedah and Perlis.

## **LITERATURE REVIEW**

As a field of study, a review of the literature indicates that the theoretical and empirical contributions in the area of cooperatives remained limited. This has resulted not only in little information about cooperatives as organizations, but also limited understanding as well as knowledge about their operations, management and business activities, particularly in the Malaysian context.

In Malaysia, despite the huge numbers of cooperatives involve in various business activities and industries, there is not much research on these organizations. Although there are some studies conducted on cooperatives, the review of these past studies suggested that the scope and focus of the research are not only limited but also not integrated. In general, previous studies have primarily focused on examining the performance of cooperatives, management styles, human resource management practices, and the compliance to Cooperative Societies Act 1993 (Kaur, 2009; Yacob, 2009; Tei, 2009; Rajaratnam, 2008, 2007; Kaur, 2006).

As organizations, cooperatives are not perfect. They are involved in different businesses and it has also been acknowledged in the literature that not all cooperatives are successful. Like the other business organizations, they have strengths, weaknesses and face various threats. Over the years, studies have from time to time verified the existence and to certain extent discovered the nature of their strengths, weaknesses, opportunities and threats. Although findings of previous studies have not established a uniformly recognized group of strengths, weaknesses, opportunities and threats, these studies were able to detect a number of recurring themes (Simmons and Birchall, 2010; Carr, Kariyawasam and Casil, 2008; Satgar, 2007; Lerman and Parliament, 1990; Novy, Bimberg and Mersman, 1989).

One of the earlier study conducted by Novy, Bimberg and Mersman (1989) found four specific weaknesses faced by the producers' cooperatives in Germany. According to the results of the study, weaknesses of the producers' cooperatives in Germany included the following; lack of operating funds, lack of organizational experience and managerial qualifications, the danger of egotistical approach and lack of organized and guaranteed sales.

In a study that compared between the performance of cooperatives and investor-owned firms (IOFs) in the food industries in the United States of America, Lerman and Parliament (1990) discovered that cooperatives were not only able to sustain the same growth as the IOFs but they also do not rely more heavily on debt financing as well as do not maintain lower safety margins against default. The results of the study further indicated that the cooperatives in the food industries were not overinvested and they utilized their fixed assets more efficiently in generating sales as compared to the investor-owned firms.

Satgar (2007), on behalf of the Cooperative and Policy Alternative Center (COPAC) initiated an attempt to investigate the problems faced by cooperatives in South Africa. Analysis of the data gathered from 83 cooperatives in the study indicated that these cooperatives faced seven types of problems. According to the study, the problems faced by the cooperatives in South Africa included; lack of accountability, lack of commitment from members, funding, production problems, internal problems, alcohol abuse and other problems.

Furthermore, the findings of the study by Carr et al., (2008) indicated that the effectiveness of cooperatives was affected by both internal as well as external factors. According to the study, among the factors that hindered the effectiveness of cooperatives include, competition, attraction and retention of membership, cash flow and income generation, increasing cost of energy and other resources as well as keeping track of changing technology.

Apart from the factors that affect the effectiveness of cooperatives, the study by Simmons and Birchall (2010) has identified various advantages of cooperatives as well. Based on the information collected from four types of cooperatives (consumer, credit, fishing and industrial) in Tanzania and Sri Lanka, the study found several financial advantages that are fundamental to cooperatives. Among the financial advantages included; provide more easily obtained loans at lower rates, offer high quality goods at low prices, able to get better prices for their products, able to expand their members' savings and pay dividends to their members.

In addition to the financial advantages found in the four types of cooperatives operating in Tanzania and Sri Lanka, the study conducted by Simmons and Birchall (2010) was also able to detect at least eight problems or disadvantages faced by these cooperatives. Among the eight problems detected in the study are; lack of financial backing, inflexibility, lack of skills, technical resources issues, lack of marketing support, relationship with government, issues related to democracy as well as accountability and lack of trust.

## **RESEARCH METHODOLOGY**

### ***Procedure and Sample***

The cooperatives involved in this study were located in the states of Penang, Kedah and Perlis. These cooperatives were active and they were officially registered with the Malaysia Cooperative Societies Commission (MCSC) in the three states. The cooperatives in the study were selected from the directory of the cooperatives obtained from the MCSC. The directory listed a total of 1,344 cooperatives in Penang, Kedah and Perlis. Of the 1,344 cooperatives, 505 cooperatives were registered in Penang, another 703 cooperatives were registered in Kedah and the remaining 136 cooperatives were registered in Perlis. However, 20 per cent of the cooperatives were found to be inactive.

The study selected only active cooperatives that have been managed by their members for at least the past three years. On the basis of these criteria, 1,075 cooperatives were identified and selected from Penang, Kedah and Perlis. Of the 1,075 cooperatives, 404 cooperatives were located in Penang, another 562 cooperatives were located in Kedah and the remaining 109 cooperatives were located in Perlis.

The data for the study was gathered by using a questionnaire. Questionnaires were given to the Assistant Directors of the MCSC offices in the three states who helped to distribute the questionnaires to the cooperatives in their states. A total of 1075 questionnaires were given to the Assistant Directors and distributed in the three states. The distributed questionnaires were then collected from the Directors a month later. Of the total of 1,075 questionnaires distributed, 92 cooperatives completed and returned their questionnaires to the Assistant Directors. This outcome resulted in the overall response rate of 8.6%.

### ***Survey Questionnaire***

The questionnaire used in this study consisted of into two parts. The first part has 13 questions. The second part contains five questions. Questions 1 through 12 were adopted to gather the data on the background and characteristics of the cooperatives. More specifically, the data include the following; the year cooperative was established, number of members when established, current number of members, number of board of directors when established, current number of boards, number of full time employee when established, current number of employees, share capital of members when established, current share capital, value of asset when established and current value of assets. The cooperatives were asked to list the main activities of their cooperative when they were initially formed in question 12. As for question 13, the cooperatives were requested to indicate their current business activities.

In the second part, question 14 asked the cooperatives to list five most pressing problems that they encountered. Following this, question 15 requested the respondents to specify five weaknesses of the cooperatives. The respondents were inquired to indicate their strengths in question 16. This is followed with question 17 which sought to get the information on the opportunities perceived by the cooperatives. Finally, in question 18, the respondents were asked to list five threats that their cooperatives faced.

## **THE RESULTS**

### ***Profile of the Respondents***

As mentioned earlier, the data for the study was collected from 92 cooperatives by using questionnaire. The questionnaires were completed by the managers, executives and board of directors of the cooperatives. Out of the 92 respondents in the study, 43 were managers, another 26 were executives and the remaining 23 were the directors of the cooperatives. From the 92 cooperatives that were involved in the study, 65 were adult cooperatives and the remaining 27 were school cooperatives.

Of the 65 adult cooperatives, seven cooperatives were operating in Penang, another 32 cooperatives operated in Kedah, and the remaining 26 cooperatives had operations in

Perlis. Of the 27 school cooperatives, nine were located in Penang, another four in Kedah and the remaining 14 were located in Perlis. The cooperatives that participated in this study were involved in 38 different business activities.

### *Strengths, Weaknesses, Opportunities and Threats of the Cooperatives*

Based on the analyses of the data collected from the cooperatives, the results show that the cooperatives have various strengths, weaknesses, opportunities as well as faced different threats. The following Table 1 to Table 4 summarize the strengths, weaknesses, opportunities and threats as reported in the study.

#### *Strengths of the Cooperatives*

In terms of the strengths of the cooperatives, the results of the study indicate that these organizations had various strengths. Table 1 presents the 31 strengths of the cooperatives as identified in the study. As shown in Table 1, the broad range of strengths reported by the cooperatives involved various factors such as organizational as well as external environmental factors.

#### *Weaknesses of the Cooperatives*

In addition to determining their strengths, the present study also attempted to gain insights into the weaknesses of the cooperatives. Analysis of the data gathered from the participating cooperatives shows that the 96 cooperatives in the study indicated that they had experienced at least 33 types of weaknesses. In general, a review of the weaknesses suggests that many of them are internal to the cooperatives. The 33 weaknesses as recorded from the cooperatives are presented in the following Table 2.

**Table 1** Strengths of the Cooperatives

	<b>Strengths</b>	<b>Frequency</b>
1.	Board of directors has vision.	4
2.	Encouraging response from students for all types of goods sold.	1
3.	Increased in fixed assets.	1
4.	Owned building.	1
5.	Support the operation of cooperatives account from SEKKOP.	1
6.	Increase in sales from time to time.	1
7.	High dividends.	2

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8.	Owned strategic assets.	1
9.	Collaboration of 13 cooperatives to rear chicken.	1
10.	Employees who are hone stand doing the task properly.	1
11.	Increase membership.	3
12.	Diversity in terms of products and facilities offered to members.	2
13.	Cooperation from directors.	2
14.	Profit increase every year.	2
15.	Strong financial position.	3
16.	Strong commitment from cooperative committee members.	2
17.	Strong demand for supply from KEDA.	1
18.	Help members to solve their financial problems.	2
19.	Secure the cooperation of the management of polytechnics.	1
20.	Capital base increases every year.	2
21.	Investment in shares and fixed deposits.	1
22.	Increasing number of consumers.	2
23.	Rental of building.	1
24.	Second place winner in the national competition of school tourism cooperative in 2009.	1
25.	Salary deduction through Angkasa and employers.	2
26.	Lower risk in the current business.	1
27.	Operating system at par with the banking industry-Koperasi Bank Persatuan.	1
28.	Support from RISDA and Suruhanjaya Koperasi Malaysia.	1
29.	Strong support of school administrators.	2
30.	Solid support from both directors' and ordinary members.	3
31.	Increase in share capital (member fee).	1

**Table 2** Weaknesses of the Cooperatives

	<b>Weaknesses</b>	<b>Frequency</b>
1	No cooperation among directors.	3
2	Holding directorship for too long.	4
3	Internal funds cannot be fully utilized for financing activities.	2
4	Failure of project due to increase in bank interest rate.	1
5	Previous debts to be settled by new board.	1
6	Internal Audit Committee members are not professionals.	2
7	Lack of credit control.	2

8	Members are not punctual when attending meeting.	3
9	The attendance rate of members in General Meeting has not reached 90%.	2
10	Time constraints for teachers/committee due to management problems.	1
11	Inadequate capital.	3
12	Lack of business projects.	2
13	High cost to undertake media promotion.	1
14	Skills of staff not fully utilized.	1
15	Lack of staff.	3
16	Lack of expertise in managing projects.	2
17	Lack of support from the teachers.	2
18	Limited time for sales.	1
19	No banking facilities such as ATM.	1
20	High debt payment.	2
21	Increase in the number of shares of each cooperative in the group.	1
22	Management does not deal with problems faced by the cooperative staff.	2
23	Not enough retail space for sale of books during the beginning of the year.	2
24	Poor documentation.	1
25	Lack of marketing strategy.	1
26	Weak governance.	1
27	Risks averse.	1
28	Lack of storage facilities.	1
29	No enough working capital.	1
30	No office.	1
31	No new viable project.	1
32	There is no enough capital to invest in commercial plant.	1
33	Notable to hire permanent employees.	2

### ***Opportunities of the Cooperatives***

Apart from the weaknesses, the cooperatives in study were also asked to identify the opportunities available to their organizations. With regards to the opportunities, the respondents provided numerous responses. The analyzed data collected from the cooperatives helped to distinguish a range of 39 different opportunities that mainly



focused on new business ventures as well as expanding existing business activities. Table 3 below lists the 39 opportunities that were reported by the cooperatives in the study.

**Table 3** Opportunities of the Cooperatives

	<b>Opportunities</b>	<b>Frequency</b>
1	Become promotion agent.	2
2	Buy shares in bank.	1
3	Rear organic chicken.	3
4	Improve service quality.	2
5	Ability to buy properties.	2
6	Manage budget hotels.	2
7	Ability to obtain numerous banking facilities from local banks.	3
8	Obtain new contract	2
9	Develop a cattle feed lot	1
10	Invests hares.	4
11	Provide fish fries such as catfish, tilapia, and prawn to the Kedah Agro KB Corporation.	2
12	Supply beverages to numerous mosques.	1
13	Acquire shop lots.	2
14	Open a petrol kiosk in Sik, Kedah.	1
15	Obtain wholesale license for distributing rice (BERNAS).	3
16	Explore their on ore business.	1
17	Taking order for new student's nametag.	1
18	Issuance of innovative and competitive loan products.	1
19	Improve agricultural input.	2
20	Improve marketing strategy.	3
21	Sell various types of products to teachers.	1
22	Establish collection and marketing center for cottage products.	1
23	Establish effective credit management system.	1
24	Marketing of rubber (license from LGM).	1
25	Development of real estate.	1
26	Supply chicken in Guar Sanji.	1
27	Supplier of controlled products such as sugar, cooking oil and flour.	2
28	Become a supplier.	4
29	Involve in the construction business.	1

30	Processing of fish meals.	1
31	Open a barbershop	1
32	Rearing of chicken	2
33	Rearing of chicken (air conditioned)	1
34	Produce honey from honeybees.	1
35	Provide micro credit to members.	3
36	Planting banana, lemon grass, catfish farming	2
37	Rental of site at farmers' markets as well as day and night markets	2
38	Provide site for products exhibition created by SMEs	1
39	Establish nursery and kindergarten	2

### *Threats Faced by the Cooperatives*

This study also attempted to determine the threats faced by the cooperatives. The responses from the cooperatives suggest that their organizations faced numerous threats. Overall, the results of the study indicate that the cooperatives encountered a total of 29 threats that involved both organizational and external environmental factors. Table 4 shows the 29 threats as reported by the cooperatives involved in this study.

**Table 4** Threats Faced by the Cooperatives

	<b>Threats</b>	<b>Frequency</b>
1	Monopoly threat from private business.	2
2	Flood.	2
3	Competition from commercial banks in providing personal loans.	2
4	Have to compete with Bank Rakyat and Bank Koperasi.	1
5	Economic uncertainty.	3
6	Free trade.	1
7	Too many opportunists joining cooperative.	1
8	Obstruction by those who have vested interesting department.	1
9	Theft.	2
10	Lack of members.	3
11	Difficulty in getting skilled workers.	2
12	No standard method to manage cooperative accounts.	1
13	Increasing number of hypermarkets.	2
14	Plant closure.	1

15	Factories do not allow co-operative to operate.	1
16	Co-operative does not have a stable core business activity.	1
17	Lack of cooperation in the cooperative.	1
18	Business environment not conducive.	1
19	Lack of workers.	2
20	Community is not ready for fair trade.	1
21	Procurement of control items from non-bumi suppliers.	1
22	Increase number of non-performing financing facilities.	1
23	New rules introduced by the government through the relevant agencies.	1
24	Competition from other co-operatives.	2
25	Stiff competition for tenders.	1
26	Increasing business competition.	1
27	Farmers sell paddy directly to BERNAS in order to get subsidies.	2
28	No new members.	1
29	No support from directors.	1

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## DISCUSSION AND CONCLUSION

In an effort to determine the nature of the cooperatives in Malaysia, this study investigated their strengths, weaknesses, opportunities and threats. Based on the analyses of the data collected from the cooperatives, the results of the study indicate that they have various strengths, weaknesses, opportunities as well as faced numerous threats.

As for the strengths of the cooperatives, the study was able to identify at least 31 different types of strengths among the cooperatives. Their competitive strengths may have mainly resulted from factors such as number of members, share capital, organization, benefits and community involvement. If exploited skillfully, these strengths will enable the cooperatives to capitalize not only on the available business opportunities but also serve their needs.

In addition to determining their strengths, the study was also able to gain some insights into the weaknesses of the cooperatives. Like all other types of organizations, cooperatives are not perfect. The information gathered from the participating cooperatives shows that they acknowledged 33 weaknesses. In general, these weaknesses may have originated from internal as well as external factors such as inadequate management, poor organization, lack of skills and knowledge as well as the inability to cope with the changes occurring in their business environment.

In the study, the cooperatives were also asked to identify the opportunities available to them. Based on the information obtained from the cooperatives, the study was able to detect 39 opportunities. The opportunities that are available to the cooperatives may have resulted from external factors such as increase in demand for their goods and services, the emerging of new industries and favorable changes in the government economic policies.

Apart from the identification of the opportunities available to the cooperatives, this study also attempted to determine the threats faced by the cooperatives as well. The information gathered from the cooperatives suggests that as organizations, they faced various threats. The cooperatives reported 29 threats. The threats viewed by the cooperatives may have been due to their inability to develop as well as sustain certain distinctive capabilities to cope with the rapid changes that are occurring in their business environment.

As a whole, this study provides a much more detail information on the strengths, weaknesses, opportunities and threats of cooperatives than previously available. The information on the strengths, weaknesses, opportunities and threats are useful to the cooperatives. For the cooperatives to sustain their business activities, they need to develop long term strategic plans for effective management of environmental opportunities and threats, in light of their strengths as well as weaknesses.

The findings of this study offer several managerial implications for the cooperatives. First, the study shows that there are opportunities for group of individuals (at least 50) and organizations to establish cooperatives in various industries. In particular, under the second National Cooperative Policy (2011 – 2020), the government is encouraging as well as promoting the formation of cooperatives in the country through various initiatives.

Second, members are vital to the cooperatives. This is because their survival depends on the members' involvement and commitment. In order for a cooperative to survive, it needs to attract new members as well as to ensure that existing members will continue with their membership and participate actively in the activities of the cooperative as well.

Third, like all other organizations, cooperatives are not immune to problems, weaknesses and threats. This study discovered numerous weaknesses and threats faced by the cooperatives. As such, an important step toward positive management of a cooperative is the identification and understanding of these weaknesses and threats. With an understanding of the problems, weaknesses and threats, cooperatives may prepare themselves through different activities such as information searching, education and training to better handle them.

Fourth, despite their weaknesses and threats, cooperatives can still compete vigorously in several business areas and industries. Their uniqueness provides them

with a number of competitive strengths and opportunities. If exploited effectively, these strengths and opportunities will enable the cooperatives to compete with the other business organizations.

As mentioned previously, despite the quantitative significance of the cooperatives, empirical research in this area remains limited in the Malaysian context. This research suggests opportunities for researchers interested in further exploring the nature of cooperatives and their important role in the Malaysian economy. For instance, it would be useful to investigate successful cooperatives. In particular, it would be worthwhile for future studies to focus on examining the common characteristics of successful cooperatives, internal and external factors such as distinctive capabilities, structure, business strategies and competition that can affect the performance as well as the success of cooperatives.

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