

# Reputation and Transparency of Cooperative Movement in Malaysia

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**Abstract**—This paper studies the reputation and transparency of cooperative movement in Malaysia.

**Keywords**—Cooperative movement, reputation, transparency, web presence.

## I. INTRODUCTION

TRANSPARENCY is regarded as a key requirement for successful feedback systems and good governance in any organizations including cooperative organizations. Timely available and reliable information is so crucial for the effective regulation and monitoring cooperatives by the government, members and public. Lack of transparency can lead to information asymmetries and reduces the ability of government, members and other stakeholders to monitor and regulate cooperatives. Unlike public listed corporations, the Malaysian cooperative movements have no obligations to disclose their financial reports to the public, but somehow the obligation still exists for cooperatives to disclose information to the members of cooperative movements. Publicly available information of cooperative organizations is important because non-accessibility may result in the loss of public confidence.

The use of the internet to promote one organization is very beneficial. This method can enhance the level of information reach out to public and mainly to its members. With this social media, it provide cooperatives opportunities to directly reach out to and engage existing and potential members and supporters with new opportunities for sharing, collaborating and mobilizing collective action. Cooperative can use the internet to disseminate information and enhance its accountability.

According to the International Co-operative Alliance, a cooperative can be defined as “an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly-owned enterprise”. The difference between cooperative from other organizations is the way it is run on a daily basis which is they are owned and controlled by its members. Regardless of sector they operate in or where in the world they are based, cooperatives focusing on fairly and democratically management while maintaining business success [1]. Hence, the use of the internet can benefit cooperative movement in the sense that its can interact and promote its activities from members to members. This paper is organized as follows.

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Section II is the development and the status of the cooperative movements in Malaysia. Section III explains transparency and compliance of cooperatives in Malaysia. Section IV is the web presence of cooperative movement in Malaysia. Section V is the discussion and conclusions.

## II. TRANSPARENCY AND COMPLIANCE OF COOPERATIVE MOVEMENT IN MALAYSIA

### A. The Core Component of Accountability

According to [2] and [3], transparency and compliance are the core components of accountability. Transparency involves collecting information and making it available and accessible for public scrutiny. It requires providing clear reasoning for any actions and decisions, including those which are not adopted, so that they may reasonably be questioned later. Specifically, transparency is defined as the timely availability of firm-specific information to those outside the firms [4]. As for [5], transparency is defined as the widespread availability of relevant, reliable information about the periodic performance, financial position, investment opportunities, governance, value and risk of firms.

The social demand of transparency in cooperative organizations has increased. This arises due to the social and economic impact and the incidences of fraudulent behavior by some international as well as local cooperative managers. Essentially, cooperative organizations are operated on the same basis as corporate organizations, except for cooperatives do not issue shares, but their existence are still based on principal-agent concept. Due to this fact, members of cooperative, acting as the agent, are prone to be involved in activities that have conflicting interest with the principal, i.e. the cooperative board members. As such, the spate of corporate collapses highlighted the importance of cooperative to be accountable, and this would mean being completely transparent because full disclosure about own activities will enhance public trust [6].

In the context of transparency, reporting alone is insufficient as there must be some other access to the information [7]. Reference [8] contended that NGOs (which include cooperatives) have the moral obligation to act in the public interest. They are also made accountable for what they say, the values they promote and the positions they take on particular issues. “It is what it does, and not representation, that makes an NGO legitimate” [6].

Compliance, on the other hand, can be achieved through the monitoring and evaluation of procedures and outcomes, combined with transparency in reporting those findings. Issues

on compliance arise due to the weak structure and the absence of good governance in some cooperatives. In light of this matter, the present Cooperative Societies Act 1993 has been reviewed and several provisions were added to increase supervision, monitoring and enforcement against existing cooperatives [9]. Further, better management of intellectual and human capital assets that exist in the movement cooperative may result in more enhanced compliance and better regulation of cooperative operations [9].

Internal audit committee is one important determinant of good cooperative compliance. According to the Cooperative Societies Act 1993, an Internal Audit Committee shall consist of not less than three and not more than six members and appointed at the annual general meeting. Some of the functions of the Internal Audit Committee include examining all accounting and other records, validating all expenditures within the limit of their authority, and communicating to the Board any discrepancies that may occur in the management. They also have to attend the annual general meeting and present reports on the management and affairs of the cooperatives. Notwithstanding, the Internal Audit Committee has to review and examine the accounting records at regular intervals not less than once in every three months. In the case where they fail to examine the accounting records, they may appoint competent persons to examine such accounts.

#### *B. Financial Reporting Legislation of Cooperative in Malaysia*

In Malaysia, financial reporting requirement of cooperative movement is governed by the Cooperative Societies Act 1993 (Amended) (Act 502). According to the Act, under section 58 (3), every cooperative society should prepare its trading and profit and loss accounts and balance sheet together with any other document required not less than two months after the completion of each financial year for the purpose of audit. Those documents should be kept at the registered office and should be available at all times for inspection by the Registrar General. Furthermore, under Section 59 (1) and (2), every cooperative society should lay at its annual general meeting at least once in every calendar year, its (i) trading and profit and loss accounts; (ii) a statement of sources and application of funds; (iii) a balance sheet; (iv) a report signed by or on behalf of the Board with respect to the state of affairs; (v) the auditor's report; and (vi) the observations of the Registrar General. In addition to the documents as mentioned above, the society should also submit those audited documents to its members not less than fifteen days and also to the Registrar General not less than thirty days before the annual general meeting. The Act under section 60 (1) stipulates that these documents should be audited at least once a year in every financial year by some person approved by the Registrar General.

Regulation 2010, section 31 (2), highlighted that a complete list of items of expenditure of the Board and payment to any individual members of the Board should be included in the notes to the profit and loss account of the cooperative societies. On the other hand, Section 58 of the Act under the

Regulation 2010 specifies that cooperative movement should prepare the financial statements in the form as determined by the Malaysia Cooperative Movement Commission (MCC). The standardized format is laid out in the GP: 23. This guideline aims to ensure the uniformity and harmonization among co-operative in presenting their financial statement to the users so that the preparation is in accordance with Co-operative Act 1993 (Act) and Co-operative Regulations. It provides the minimum requirements of financial statement format that need to be followed by cooperatives.

The Malaysia Accounting Standard Board (MASB) is responsible for the formulation and setting of the Malaysian accounting standards. With regard to this matter, MASB has actually issued two forms of accounting standards namely the Malaysian Financial Reporting Standards (MFRS) for public listed companies and the Private Entity Reporting Standards (PERS) for private companies. However, neither of the standards is made mandatory by the MCC for cooperative to apply in them preparing the cooperative financial reporting. However, the application of either one of the accounting standards must be consistent and comprehensive. Note that the preparation of the financial statements of cooperative society is under the responsibility of the cooperative Board member.

Financial statements prepared by the cooperatives must then be audited to ensure a true and fair view of the information being reported. With regard to this, matters on the appointment of auditors for Malaysian cooperative movement are also legislated in the Act. Under the Regulation 2010, Section 29 (2), every cooperative movement should notify the MCC on any auditor appointment by submitting to the MCC a copy of the instrument of the appointment that covers the period of such appointment, the audit fees chargeable, the scope of audit and any other relevant matter. The financial statements of the cooperative movement should be audited within a period of fifteen days after the completion of its financial year ends. If they failed, the auditor shall report such matter to the MCC. The cooperative society should then keep all records for a period of six years after the date of completion of the audit.

#### III. REPUTATION AND TRANSPARENCY IN THE COOPERATIVE MOVEMENT

As for profit oriented company, transparency is important as to serve maximization value for shareholder and stakeholders interest. But in cooperative, transparency also important as to serve maximization value for the members, government and donor. Members, government and donor are the three important primary stakeholders of a cooperative. Thus, it is important for the cooperative to maintain and enhance its reputation in the eyes of these three important stakeholders. Transparent in reporting basically able to increase the cooperative's reputation through communication of its achievements, profitability and commitment to improve its social performance.

On one hand, negative event exposed in the media to the public could damage the cooperative's image and reputation. However, one way in which management may enhance the

cooperative's reputation is to disseminate any information regarding the cooperative's ethical statement, activities as well as its annual report on its website. Furthermore, voluntary reports also important as to increase reputation in the eyes of public interest thus increase the transparency as well as to improve the cooperative's image and receive some goodwill from stakeholders [10].

On the other hand, when a cooperative owns positive news to the public, its cooperation reputation is enhanced, and reputation is affected differently by the type and obtrusiveness of issues. In particular, [11] in his study highlighted the situational theory of publics. This situational theory of publics discusses the publics' involvement and recognition of problems or complains. Reference [11] suggests that if an issue is associated with a corporation's problem-solving capability, then it can be further expanded to the discussion of how to enhance the corporation's positive reputation. The result of this study suggests that a corporation may strategically decide to own a social issue over an economic issue, or vice versa. For instance, if a corporation decides to own a social issue, the issue becomes a triggering element that can enhance the corporation's social responsibility reputation or ethical reputation. This study shows how public relations professionals may enhance a corporation's reputation or change its image [12].

In the knowledge-based economy, where actors increasingly wish to gain information on the reliability of those they deal with, performance rankings play an important role. In the business world the Fortune Ranking of America's most admired companies is a good example of a creator of reputations. Since this study focusing on cooperative, under MCC they have establish 100 Top Best Cooperatives in Malaysia which indirectly display the top 100 high reputation of cooperative in Malaysia. These 100 Top Best Cooperatives in Malaysia have been displayed on the MCC's web page.

A cooperative is defined as the best cooperatives in Malaysia when the cooperative achieve financial performance (revenues, assets and equity), business, management and legal compliance are satisfactory according to standards prescribed by the MCC. Basically, MCC's guideline on choosing the top 100 best cooperative in Malaysia are aligned with the criteria adopted by the International Co-operative Alliance (ICA) for Global 300 list of cooperative ranking [13].

Basically, there are three steps to be taken in the evaluation process of determining the best cooperative which are (1) Determination of Successful Cooperative, (2) Determination of Cooperative Procurement and (3) Determination of Other Factors. Cooperatives to achieve status "Successful Cooperative" will be arranged according to the highest earnings. 100 cooperatives that have the highest revenue will be listed. Cooperative short listed after passing average conditions in determination of successful cooperative. This is important to ensure 100 Best Cooperative has short listed clean image in terms of management and administration. If there are any findings in cooperative that are not good, the cooperative will be removed from the list of 100 Best Cooperative and replaced with a list of qualified cooperative

in reserve place. Listing is also made according to the cooperative cluster of large clusters, medium, small and micro based on total annual turnover of cooperatives.

The evaluation criteria adopted by MCC in providing 100 Best Cooperative Malaysia Index currently are considered as relevant. Cooperative management can also use this index as to make their own assessment of the position of cooperative and non-financial aspects, in order to improve the performance of the cooperative from time to time in order to be listed in the 100 Best Cooperative Malaysia Index at a later date [14].

#### IV. WEB PRESENCE OF COOPERATIVE MOVEMENT IN MALAYSIA

Today, advances in networking technologies provide some unique opportunities for developing countries. The use of the Internet as a tool for internal communication is adequate; however, its use as a mechanism of communication for external stakeholders, members and peer organizations is still scarce. Furthermore, low cost networked information technologies, such as the Internet, can be used to facilitate political and community participation [15]. In emerging country like Malaysia, advanced communication technologies can play a special role. These technologies not only allow countries to leapfrog to a modern infrastructure, they can also serve as a catalyst, helping to promote social and economic behavior more conducive to development [16].

In recent years, the recognition of the work of cooperative in society has increased. The activities that cooperative carry out address market and society effect. The role that cooperative plays due to its features such as trust, norms, and networks improve the efficiency of society. The social activity of these institutions affects not only their direct beneficiaries but also influences the improvement of the surrounding social and economic environment.

Although the objectives of cooperative are focused on serving members interest, their legitimacy has been undermined by recent incidences of fraud by directors of some cooperative in Malaysia [17]. Due to these circumstances and given the societal importance of these entities, there is an increased demand for transparency not only with respect to the publication of cooperative's results but also with respect to the governance practices of such organizations. To respond to such demand, cooperative should provide a global overview of the entity, reporting on both their economic and organizational aspects as well as on their activities.

Furthermore, in order to be transparent cooperative should communicate the information to society. In this regard, the Internet is a strategic tool in the dissemination of information due to its availability, low cost, and accessibility. Web pages are an excellent connecting link between stakeholders and cooperative. However, in an international level there are not specific legal rules for cooperative transparency

Social media sites were so popular that it had become a trendy tool for people to exchange ideas and information. In Malaysia alone 11.2 million people are registered with the very popular social media site Facebook [18]. This also supported by the Assistant Minister of Bumiputera

Entrepreneurs Development, Datuk Mohd Naroden Majais where he said cooperatives should embrace social media to become more proactive, competitive and cooperatives should take advantage of this social media sites as to broaden their business network, which might lead to increase in revenue and membership [18].

One of the cooperatives which take this opportunity to broaden their networking is Bank Rakyat where it has joined the social media site such as Facebook in 2010. Bank Rakyat Facebook page not only limited to its members but also open to all potential customers and members. They discussed the ideas and promote the product provided in Bank Rakyat. In addition, many activities especially relates to the corporate social responsibility are posted in this Bank Rakyat page. Indirectly, Bank Rakyat has portrayed a good reputation and increase the level of transparency of the activities held by the Bank Rakyat. With this social media, it provide cooperatives opportunities to directly reach out to and engage existing and potential members and supporters with new opportunities for sharing, collaborating and mobilizing collective action.

Relationships with members and supporters are crucial to build a cooperative marketing and accountability. Social technologies such as blogs, video and photo sharing sites and networking platforms, not only have the potential of enabling individuals and organizations to share content and socialize, but also to filter news and information, to organize events, and to foster collaboration and participation [19].

Nowadays the use of the Internet as a tool for internal communication is adequate; however, its use as a mechanism of communication for external stakeholders and peer organizations are scarce another reason is the lack of resources and personal with technological knowledge within cooperative [20].

#### V. DISCUSSION AND CONCLUSION

Cooperative should be leaders in using social technologies to grow and strengthen their networks. These are, after all, relationship-driven organizations: online communities and social media offer a new way of harnessing existing loyalty and passion [19]. In today economy, where actors increasingly wish to gain information on the reliability of those they deal with, performance rankings play an important role and hence the MCC has plays their role well. Under the MCC, they have established the 100 Top Best Cooperatives in Malaysia which indirectly display the top 100 high reputation of cooperatives in Malaysia. These 100 Top Best Cooperatives in Malaysia have been displayed on the MCC's web page.

Transparency is important as to ensure the sustainability of the cooperative by communicating relevant information relates to the current and future financial and non-financial information. Failure to communicate sufficient information can lead to negative perceptions regarding the cooperative's effectiveness in managing their resources and consequently lead to withdrawals of support by the members and other stakeholders.

This paper highlighted the important of the current cooperative transparency level and thus, opens up ideas and

suggestions for future studies to fill up the gap of proposing the best practice framework for the Malaysian cooperative.

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