

Are Board-Managed Cooperatives Efficient? When Monitors become Managers

Norman Mohd Saleh,¹ Md Shafiin Shukor,¹ Azizah Abdullah,² Mohamat Sabri Hassan,¹ Romlah Jaffar,¹ Sarah Aziz Abdul Ghani Aziz,⁴ Noradiva Hamzah,¹ Zaini Embong,¹ Zahir Dahari,³ Romaizah Abdul Kadir³

ABSTRACT

There is evidence of inefficiencies in cooperatives, but the literature does not adequately address this issue. In contrast to the previous literature on cooperative efficiency, we study the effects of cooperatives that are managed by the board of directors, a situation that is common among cooperatives. This study aims to examine whether board-managed cooperatives (with significant agency costs) are less efficient than other cooperatives. This study estimated the technical efficiency of cooperatives using stochastic frontier analysis on a sample of 378 medium, small and micro cooperatives in Malaysia. The analysis shows that board-managed cooperatives are less efficient than cooperatives with an appointed manager. This result is consistent with the agency-resource dependence perspective (an integration of monitoring and provision of resources). Moreover, the efficiency of a cooperative is related to the number of its charitable funds and members. The appointment of a manager in cooperatives should be encouraged. Although cooperatives lack the resources to appoint a manager, the efficiency that results from such an investment could lead to higher revenues and return to the members.

Keywords: Board, Cooperative, Efficiency, Malaysia, Manager, Stochastic Frontier Analysis, Resource-based View

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¹ Faculty of Economics and Management, Universiti Kebangsaan Malaysia, Bangi, Malaysia.
norman@ukm.edu.my, shafiinshukor@gmail.com, msabri@ukm.edu.my, drromlahjaffar@gmail.com,
adibz@ukm.edu.my, zainiembong@ukm.edu.my

² Faculty of Accountancy Universiti Teknologi MARA Cawangan Selangor, Kampus Puncak Alam, Malaysia.
aziza588@uitm.edu.my

³ Suruhanjaya Koperasi Malaysia, Kuala Lumpur, Malaysia zahir@skm.gov.my, romaizah@skm.gov.my

⁴ Institute for Environment and Development (LESTARI), Universiti Kebangsaan Malaysia, Bangi, Malaysia.
saziz@ukm.edu.my