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Internationalisation of Kedah's Cooperative Societies

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Abstract

Cooperative plays a significant role in the overall economic development of Malaysia. The purpose of the research is to investigate whether the Cooperative Societies in Malaysia have the potential to engage in international business. The government and financial institutions have set up new policies encouraging Cooperatives to engage in international business. This study is based on the descriptive procedure. In the quantitative approach, 150 questionnaires were administered and the returnable was 116. Findings from the study disclosed that there were 5 major barriers faced by Kedah cooperatives distracting them from engaging in international business. This study also highlighted important incentives, strategies and factors that can influence cooperatives to engage in international business. Finally, the study provided some recommendations to authorised parties and cooperative's management in order to encourage and assist Kedah's cooperatives to overcome the barriers in international business.

Introduction

The Cooperative Societies form an important component of economic development in Malaysia. Their contribution to a nation's economy is significant in terms of business units, employment opportunities, as well as the amount of goods and services that they produced. Increased trade deficits and other economic problems have forced many countries, as well as regions and states, to develop policies and strategies to encourage non-exporting firms to enter the export fields. Several studies have been conducted on the many aspects of export stimulation programs. They have shown that smaller-sized firms in particular Cooperative Societies could benefit from exporting (Olson, 1975; Pointon, 1978; Czinkota, 1982; Cavusgil, 1983; Gronhaug and Lorentzen, 1983; Reid, 1984; Denis and Depelteau, 1985; Seringhaus, 1984, 1987; Cavusgil and Naor, 1987).

However, the policy makers have a complete knowledge of the determinants and inhibitors of export entry and a clear understanding of the export decision-making process. Unfortunately, small and medium-sized firms, especially Cooperative Societies do not constitute a single homogeneous group (Tesar, 1976). Therefore, it is essential that policy makers fully understand the kinds of differences that occur among them if they are to provide programs that effectively move these firms towards successful exporting.

One important way in which firms differ is where on the "internationalization process" continuum they fit. It is proposed here that Cooperative Societies at one stage of development process may have different needs and interests that discourage them from engaging international business.

Cooperative in Malaysia

Table 1 shows in the year 2002, there are 4,330 Cooperative Societies in Malaysia with a total membership of 5.027 million, 4.40 billion in total capital share and 19.00 billion of total assets. In term of total number of Cooperative Societies, Table 2 shows that the top three largest Cooperatives Societies in Malaysia were Sabah (479 Cooperatives), Sarawak (472 Cooperatives) and Perak (467 Cooperatives).

Table 3 shows the total number of Cooperative Societies in the Districts in Kedah. It shows that majority of Cooperative Societies were located in the district of Kota Setar/Padang Terap (20 Cooperatives) and followed by Baling (18 Cooperatives).

Table 4 shows that the majority of Cooperative Societies engage in beverage and manufacturing industries (9.5%), followed by engineering industry (10%).

Literature Review

Defining Cooperative Societies

In accordance with its objective of establishment, Cooperative function is to a great extent in the enhancement of quality in the socioeconomic aspect of a community. At any rate, the creation of Cooperative produces the inadvertent effect of poverty eradication. Cooperatives which consist of members with a lower income group will focus on activities that entail the production of crafts and the trade of farms' produce, small scale industry, trades and any other consumer services. Apart from that, the setting up of cooperative among workers is essential as it contributes greatly to workers' improvement of quality of life. The mobility of cooperative is seen as the antidote to unemployment by affording jobs' opportunity. Owing to Cooperative availability in the rural areas, jobs are growing and reducing the migration of youths to towns or big cities.

Defining Internationalisation

According to Beamish (1990), "internationalization" is the process by which firms increase their awareness of the influence activities on their future activities, establish, and conduct transactions with firm from other countries. Firms become international for a variety of reasons such as a desire for continued growth, domestic market saturation and the potential to exploit a new technological advantage. Beamish also found that a strong correlation exists between improved performance and degree of internationalization.

Modes of Internationalisations

In seeking to penetrate foreign markets, firms may choose from various entry modes. Typical modes of entry include exporting, licensing, joint ventures, acquisitions, and green-field investments. Each mode involves different resource deployment patterns (Agarwal & Ramaswamy, 1991), levels of control and risk (Kim & Hwang, 1992) and political and cultural awareness (Dalli, 1995).

Barriers to Internationalisation

Yaprak's (1985) research concluded that non-exporters perceived anxieties about export involvement were due to lack of information about exporting, limited foreign market contacts and personnel deficiencies. Barret and Wilkinson (1985) added that the inability to meet competitive prices of overseas suppliers and high freight costs involved in selling to foreign markets stood as particularly important hindrances to engage in international business. Bilkey (1978) further stated that high risk, insufficient financing sources, prohibitive or protective foreign government regulations, inadequate distribution channels, insufficient knowledge of marketing opportunities abroad, difficulties in understanding foreign markets and lack of foreign marketing connections to be the most often cited barriers to exporting.

Incentives to Internationalisation

Aharoni (1996) stated that, due to limited market knowledge and experiences, most companies during the early stages of internationalization would often look to outside foreign intermediaries to assist in market penetration of a particular country. Sullivan and Bauerschmidt (1990) found that close proximity to foreign markets, diminishing growth opportunities in the home market, expectation of economies resulting from added value of trade, availability of unused production capacity, managerial beliefs about the value of exporting, improvement in the growth potential of the product market and chance to diversify into new markets were the major incentives for the firms to engage in international business. Bilkey (1978), Bilkey and Tesar (1977) and Cavusgil (1984) found that among other motivators, which have been found to be correlated with initial export involvement are receipt of unsolicited foreign orders, aspirations for greater profit, sales growth, the desire to spread risks of research and development costs across a wider volume, the need to utilize excess manufacturing capacity and the desire to achieve stability through diversification. Meredith (1984) argued that the owners of a firm would benefit if that firm spreads

its sources of income over a set of activities that are diversified internationally. Meredith stated that the firm would face high risk if doing the business in one country only. According to Davidson (1982), several factors are considered important in assessing the potential attractiveness of a foreign market. These include market size and growth, competition, servicing costs and the host country's social, political and economic environment.

Methodology

Study Method

The research reported in this study was carried out through a mail survey and face to face interviews of Cooperative Societies in Kedah¹. Each Cooperative Society was sent a seven-page questionnaire, along with a postage-paid reply envelope and a cover letter identifying the objectives of the study. Many issues were addressed in the questionnaire, but part of the survey instrument dealing with export incentives and barriers was adapted from Kedia and Chhokar's (1986) study of Louisiana manufacturers. After the questionnaire was pretested, a random sample of 150 Cooperative Societies was drawn from the Registration of Cooperative Societies in Kedah's Department of Cooperative Development². Out of the 150 survey sent, 34 were undeliverable, thus yielding a net delivered sample of 116 firms (a response rate of 77%). This response rate was comparable to the rates reported in other studies involving exporting firms (Burton and Schlegelmilch, 1987; Cavusgil and Naor, 1987; Keng and Jiuan, 1988; Koh and Robicheaux, 1988; Axinn, 1988; Sharkey, Lim, and Kim, 1989; Czinkota and Ursic, 1991). According to the Department of Cooperative Development in Malaysia, majority of Cooperatives Societies in Malaysia do not engage in international business except three Cooperatives Societies in the state of Selangor³. In this study, only Cooperative Societies in Kedah were chosen to analyse the factors why they are not interested to engage in exporting and were thus targets of export promotion activities (Czinkota and Johnston, 1981).

Survey Questionnaires

The structured survey questionnaires used in this study consisted of 5 sections and 90 questions. The 29 questions in sections A and B were used to obtain the information concerning the profile of respondents and the cooperative characteristics. The remaining 61 structured questions in the C, D and E sections were designed to measure the barriers, incentives, strategies and factors that cooperatives should be concerned before engaging into international business. In sections C and D, the respondents were asked to rate each item on a five-point scale ranging from (1) strongly disagree to (5) strongly agree. While, section E had a scale ranging from (1) not very important to (5) very important. The questionnaire was tested prior to mailing to the respondent in Alor Setar area. The coefficient alpha scores of the 30 measures of international business barriers and incentives were 0.93 and 0.87 respectively. Both coefficients showed a high significance.

Sample Characteristics

A grate majority of respondents are managers (92, or 79.3%), and 54 (46.6%) had graduated from secondary Schools or had a Higher School Certificate. A summary of the demographic profile of the responding Cooperative Societies is presented in Table 5.

38 (or 32.8%) of the responding Cooperatives Societies had an annual sales volume of more than RM350,000.00. 50 Cooperatives Societies (or 43.1%) had employees within one to 20 employees. 35 Cooperative Societies (30.2%) had been in business within 6 to 10 years, while 14 Cooperative Societies (12%) had been in business more than 21 years (Table 6).

Means, standard deviation, frequencies and percentage were used to analyze the important factors chosen by Cooperative Societies the reasons why they are not interested to engage in

¹ Kedah is one of the states in Malaysia.

² Kedah's Department of Cooperative Development is a government agency which assisting the development and growth of Cooperative Societies in Malaysia.

³ Selangor is one of the states in Malaysia.

exporting. Firm size, measured both by annual sales volume and total number of employees, was significant. Overall, larger Cooperative Societies tended to be interested to engage in exporting. These findings suggested that large firm size may be a necessary condition for high involvement in exporting (Czinkota and Johnston, 1981; Samiee and Walters, 1990).

Results

To investigate the interaction between Cooperatives and internationalization of Cooperative Societies, respondents were asked about (1) Barriers to international business; (2) Incentives to international Business; (3) Strategies to International Business; (4) Factors to be considered before engaging international business. The results are presented in Table 2 to Table 5.

Table 7 shows the barriers to international business faced by Cooperatives. The major barriers are (based on the top 5 of mean value):

1. Lack of foreign channel of distribution.
2. Confusing foreign import regulations and procedures.
3. High cost of selling abroad.
4. Management emphasis on developing domestic markets.
5. Lack of capital to finance business expansion into foreign market.

Table 8 shows the incentives that can stimulate cooperative to engage in international business. The incentives are (based on the top 5 of mean value):

1. Increase in international marketing experience can improve domestic competitiveness.
2. Managerial beliefs about the value of exporting.
3. Improvement in the growth potential of the product market.
4. Entry of foreign competitors in home market.
5. Chances to diversify business into new markets

By looking at the summary of the survey responses on the variable of strategies to international business, it showed that contract manufacturing is the best mode for cooperative to engage in international business (Table 9).

Table 10 shows that the efficient production methods such as dynamic sales force, possession of high technology, unique product and efficient marketing technique were the factors to be considered before a cooperative engage in international business.

Discussion

In general the results of this present survey suggest that Cooperatives in Malaysia perceived international business as attractive. The results of the study indicated that 16 barriers (mean > 3.50) dominated the perception of the Malay entrepreneurs. At the same time, the present study identified 14 incentives (means >3.50) among the 116 Cooperatives societies surveyed. Taken together, these results appear to prove that the Cooperative Societies in Kedah tend to perceived international business as not attractive compared to the domestic businesses. Such attitudes may explain why some Cooperative Societies tend to avoid engaging in international business in the first place. The study also found that the majority of the Board of Directors and managers of Cooperative Societies will internationalized their business after scrutinizing the potentials in the international market place. Even though exporting is considered one of the common ways to improve a Cooperative's short term financial position, the Cooperative Societies were more interested in the long term advantages in engaging in international business.

The results of the present study further indicate that the Cooperative Societies engaged in international business for the purpose of hedging their bets in time of uncertainty such as during an economic recession or increase in inflation. However, to cope with these situation, the country needs to increase income through its exporting activities. Increasing exporting means encouraging more firm to export, especially among the Cooperative Societies.

Conclusion

The study managed to highlight significant predictors of barriers and incentives for cooperative engaging in international business. The government and financial institution in Malaysia can use the findings from the research as guidance to modify their current policies in encouraging Cooperatives to engage in international business. Based on the findings in this study, researchers have discovered that there are 5 main barriers experienced by cooperatives engaging international business. The barriers are: (1) Lack of foreign channel of distribution; (2) confusing foreign import regulations and procedures; (3) high cost of selling abroad; (4) management emphasis on developing domestic markets, and (5) lack of capital to finance business expansion into foreign market.

By understanding the problems faced by cooperatives, government can create policies to encourage cooperative to engage in international business. Moreover, cooperators should equip themselves through various programmes such as training, cooperative education and information searching. Cooperatives should also improve their managerial skills and increase technological oriented among cooperators. Finally, Cooperative should be aggressive and proactive in doing the cooperation with their alliances.

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Appendix

Table 1

Statistic of cooperative growth in Malaysia (1990-2002)

Year	No. of Cooperatives	No. of Members (million)	Capital Share (RM billion)	Total Assets (RM billion)
1990	3,028	3.33	1.64	6.15
1991	3,083	3.44	1.75	6.55
1992	3,228	3.66	1.92	7.60
1993	3,388	3.91	2.18	8.33
1994	3,473	4.06	2.44	10.14
1995	3,554	4.25	2.74	10.39
1996	3,753	4.21	2.83	12.17
1997	3,847	4.13	3.17	12.96
1998	3,942	4.55	3.60	14.10
1999	4,050	4.33	3.84	14.10
2000	4,154	4.50	4.21	15.82
2001	4,246	4.76	4.3	18.90
2002	4,330	5.027	4.40	19.00

Source: Department of Cooperative Development, Malaysia, 2002.

Table 2

Number of Cooperative by State

State	Total
Johor	392
Melaka	150
Negeri Sembilan	256
Pahang	345
Selangor	320
Wilayah Persekutuan	290
Perak	467
Pulau Pinang	238
Kedah	329
Kelantan	288
Terengganu	229
Perlis	74
Sabah	479
Sarawak	472
Total	4329

Source: Cooperative Development Department of Malaysia (2002).

Table 3

Cooperative Societies in the Districts in Kedah

District	No. of Cooperatives	Percentage
Baling	18	14.00
Kota Setar	3	2.00
Kota Setar/ Padang Terap	20	16.00
Kota Setar/ Pendang	15	11.33
Kota Setar/ Yan	14	11.33
Kuala Muda	16	12.00
Kubang Pasu	8	6.67
Kulim/ Bandar Baharu	13	11.33
Langkawi	9	7.34
Sik	9	8.00
Total	116	100.00

Source: Department of Kedah's Cooperative Development, 2002.

Table 4

Cooperatives by Industries

Type of Industry	No. of Cooperatives	Percentage
Food	4	3.4
Beverage	11	9.5
Tobacco	9	7.8
Leather	2	1.7
Wood	4	3.4
Paper	3	2.6
Rubber	5	4.3
Plastic	2	1.7
Metal	4	3.4
Steel	5	4.3
Machinery	3	2.6
Electronic	2	1.7
Petroleum	3	2.6
Cement	1	0.9
Marble	1	0.9
Carbon	2	1.7
Pharmaceutical	3	2.6
Automobile	1	0.9
Chemical	5	4.3
Manufacturing	11	9.5
Engineering	10	8.6
Shipping	1	0.9
Telecommunication	2	1.7
Cargo	1	0.9
Insurance	1	0.9
Travel Agency	1	0.9
Transportation	19	16.4
Total	116	100.00

Table 5

Respondents' Characteristics

Respondent Characteristics (n=116)		Frequency	Percentage
Sex:	Male	79	68.1
	Female	37	31.9
Age (years):	26-35	19	16.4
	36-45	51	43.9
	46 and above	46	39.7
Marital Status:	Married	106	91.4
	Single	10	8.6
Highest Qualification of Respondents:	Lower Certificate Education	9	7.7
	Malaysian Certificate Education	21	18.11
	Higher Certificate Education	54	46.6
	Polytechnic Certificate/ Skill Certificate	22	19.0
	Bachelor's Degree	8	6.9
	Others	2	1.7
Designation:	Manager	92	79.31
	Executive	11	9.48
	Board of Director	8	6.90
	Others	5	4.31
Length of Service (years):	3 and below	12	10.3
	4-6	36	31.0
	7-9	30	25.9
	10-12	16	13.8
	13 and above	22	19.0
Monthly Salary of Respondents (RM):	1000 and below	61	52.6
	1001-1500	41	35.3
	1501-2000	12	10.4
	2001-2500	2	1.7
Training for the Past Three Years:	Yes	61	52.6
	No	55	47.4
Type of Training:	Not Training	55	47.4
	Entrepreneur	7	6.0
	Engineering	7	6.0
	Management	41	35.4
	Accounting	2	1.7
	Others	4	3.5
Working Experience with International Business Firm:	Yes	23	19.8
	No	93	80.2
Number of Organizations Worked Before:	One	39	33.6
	Two	54	46.6
	Three	18	15.5
	Four	4	0.9
	Five or more	4	3.4
Nature of Previous Companies Worked:	Firm Engage in Domestic Business	57	49.1
	Firms Engage in International Business	38	32.8
	Firms Engage in Domestic and International Business	21	18.1
Number of Years Working With International Business Firm (years):	1-3	19	16.4
	4-6	35	30.2
	7-9	5	4.3
	Not Relevant	57	49.1

Table 6

Cooperative Characteristics

Firm Characteristic (n=116)		Frequency	Percentage
Cooperative's Age (years):	Under 5	16	13.8
	6-10	35	30.2
	11-15	27	23.3
	16-20	24	20.7
	21 or more	14	12.0
Product Classification:	Spare Part/ Component Product	67	57.8
	Finished Product	49	42.2
Number of Employees:	1-20	50	43.1
	21-99	45	38.8
	More than 100	21	18.1
Average Annual Sales (RM) (past 3 years):	Less than 50,000	31	26.7
	50,000-100,000	11	9.5
	100,001-150,000	6	5.2
	150,001-200,000	3	2.6
	200,001-250,000	5	4.3
	250,001-300,000	6	5.2
	300,001-350,000	16	13.7
More than 350,000	38	32.8	
Average Annual Income after Tax Return on Total Investment (past 3 years):	Greater than 25%	14	12.1
	21% - 25%	12	10.3
	15% - 20%	7	6.0
	10% - 14%	12	10.3
	5% - 9%	26	22.4
	0-4%	18	15.6
	Negative Net Return on Total Investment	27	23.3

Table 7

Summary of the Survey Responses on the Variable of Barriers to International Business

Variables		Mean	SD
BA1	Differences in products usage in foreign country	3.39	0.92
BA2	Language and cultural differences	3.37	0.97
BA3	Lack of foreign channels of distribution	3.78	0.97
BA4	Difficult to select a reliable distributor in the foreign country	3.62	0.91
BA5	Differences in product specifications in foreign markets	3.42	0.91
BA6	Difficulty collecting payment from foreign customer	3.53	1.00
BA7	Unfamiliarity with government export assistance programs	3.60	1.07
BA8	Foreign business practices are difficult to understand	3.57	1.08
BA9	Confusing foreign import regulations and procedures	3.72	1.15
BA10	Risks involved in selling abroad	3.48	1.06
BA11	Difficulty providing after sales service	3.54	1.00
BA12	High cost of selling abroad	3.69	1.07
BA13	Difficulty arranging a licensing or joint venture agreement with foreign firm	3.43	1.07
BA14	Managerial indifferences toward value of exporting	3.53	1.04
BA15	Enforcement of high export tax by the home government	3.42	0.92
BA16	Lack of government assistance in overcoming export barriers	3.48	1.15

Table 7 (continuous)

Variables		Mean	SD
BA17	High value of foreign currency in export markets	3.40	1.08
BA18	Management emphasis on developing domestic markets	3.68	1.12
BA19	Competition from local firms in foreign markets	3.41	1.01
BA20	Lack of capital to finance business expansion into foreign market	3.62	1.09
BA21	Problem quoting price with fluctuating exchange rate	3.60	1.05
BA22	High transportation costs to ship products to foreign markets	3.61	1.14
BA23	Need to modify pricing and promotion policies according to the condition of foreign market	3.59	1.00
BA24	Need to adapt products to meet foreign customer preferences	3.40	1.16
BA25	Lack of capacity dedicated to continuing supply of exports	3.22	1.00
BA26	Lack of tax incentive by the home government for companies that export	3.50	1.12
BA27	Insufficient personnel to manage international trade activity	3.60	1.07
BA28	Difficulty gathering accurate information on foreign market	3.57	1.08
BA29	High foreign tariffs on imported products by foreign government	3.47	1.11
BA30	Competition from firms of our country in foreign markets	3.47	0.95

Note: SD = Standard Deviation
BA = Barrier

Table 8

Summary of the Survey Responses on the Variable of Incentives to International Business

Variables		Mean	SD
IN1	Chances to diversify business into new markets	3.61	1.04
IN2	Improvement in the growth potential of the product market	3.63	1.06
IN3	Ability to easily modify products for foreign markets	3.45	1.24
IN4	New information about sales opportunities in foreign markets	3.60	1.13
IN5	Possession of current information on advance technology	3.62	1.06
IN6	Intensifying competitive rivalry in the home market	3.60	1.17
IN7	Entry of a foreign competitors in our home market	3.23	1.17
IN8	Adverse domestic market conditions	3.59	1.03
IN9	Opportunity to lessen the power of domestic customers	3.70	1.02
IN10	Providing a hedge against an economic downturn at home	3.60	1.13
IN11	Managerial beliefs about the value of exporting	3.54	1.04
IN12	Opportunity to better utilize management talent	3.72	1.10
IN13	Presence of a manager in the unit who is export-minded	3.54	1.15
IN14	Increase in international marketing experience could improve domestic competitiveness	3.50	1.15
IN15	Opportunity to extend the life cycle of domestic products	3.50	1.13
IN16	Opportunity to reduce inventories	3.51	1.21
IN17	Favorable short-term profit opportunities	3.45	1.16
IN18	Availability of unused production capacity	3.36	1.11
IN19	Expectation of potential income growth as a result of increase of total trade	3.53	1.15
IN20	Diminishing growth opportunities in the home market	3.52	1.17
IN21	Moves by national competitors to export	3.39	1.09

Table 8 (continuous)

Variables		Mean	SD
IN22	Chance to use obsolete equipment elsewhere	3.23	1.20
IN23	Attractive export incentives offered by government	3.44	1.12
IN24	Awareness of export programs sponsored by the government	3.44	1.11
IN25	Export could make a major contribution to my firm growth	3.60	0.99
IN26	Reduction of tariffs in target countries	3.47	1.04
IN27	Availability of profitable ways to ship products to foreign markets	3.42	1.04
IN28	Decline in value of currency relative to foreign markets	3.41	1.05
IN29	Eased export regulations in foreign countries	3.41	1.09
IN30	Receipt of unsolicited orders from foreign buyers	3.31	1.13

Note: SD = Standard Deviation
IN = Incentive

Table 9

Summary of the Survey Responses on the Variable of Strategies to International Business

Variables		Not Important	Undecided	Important
S1	Direct Export	19.0	31.9	49.1
S2	Licensing	13.8	31.9	54.3
S3	Contract Manufacturing	13.0	29.3	57.7
S4	Joint Venture	16.4	27.6	56.0
S5	Management Contacting	18.1	25.9	56.0
S6	Assembly Operations	12.1	35.3	52.6
S7	Foreign Manufacturing Subsidiary	13.8	31.0	55.2

Note: S = Strategy

Table 10

Summary of the Survey Responses on the Factors to be considered before a Cooperative Engage in International Business

Variables		Not Important	Undecided	Important
F1	Efficient Distribution	17.3	22.4	60.3
F2	Adequate Resources to Export	13.0	22.4	64.6
F3	Proximity to the Market	19.0	25.0	56.0
F4	Strong Management	16.4	26.7	56.9
F5	Efficient Marketing Technique	7.8	21.6	70.6
F6	Possession of High Technology	6.9	20.7	72.4
F7	Competitive Price	7.8	40.5	51.7
F8	Unique Product	6.9	22.4	70.7
F9	Efficient Production Method	1.7	23.3	75.0
F10	Dynamic Sales Force	2.6	23.3	74.1

Note: F = Factor