

## **Malaysian Budget Hotel and Accommodation Cooperatives: A Study on Corporate Governance Practice**

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**Abstract:** Corporate governance has becoming a vital issue which tremendously researched even in a small organization such as cooperative. However, none has studied in the context of Malaysian budget hotel and accommodation cooperatives. This study investigated 56 Board of Directors' perceptions to find out their awareness of the corporate governance and the existing guidelines in their cooperatives. The study also examined their perceptions toward nine aspects of corporate governance such as management, appointment, responsibilities and accountability, information, assessment, remuneration, auditing and control, communication and finally principles and values. The findings highlighted that board of Directors aware of the corporate governance practice and the existing guidelines. Further, the findings also indicated positive perceptions regarding the practice which significantly contributes to the management of budget hotel and accommodation cooperatives to sustain the economy and community wealth.

**Key words:** Corporate governance, cooperative, budget hotel and accommodation, tourism and hospitality, Malaysia

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### **INTRODUCTION**

The International Co-operative Alliance defines cooperative as an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise. In the context of Malaysia, cooperative is defined as a society registered under the Cooperative Societies Act 1993 with the objective is to promote economic interest among its members in accordance with cooperatives principles (Suruhanjaya Koperasi Malaysia, 2009). Cooperative is considered an important organization which plays essential role in generating growth in the economy. In fact, cooperatives are also expected to become the third crucial engine after the public and privates sector in driving the Malaysian's economic growth (National Cooperative Policy, 2002). As reported in Utusan Malaysia, about 110 cooperatives out of 8,606 registered in 2011 have been classified as the big cluster due to the returns received from their businesses reached almost RM5 million per year. The government has high confidence and commitment for cooperative movement thus the agenda has been included in many development plans including the budget hotel and

accommodation as to sustain and produce fusion between the economic and social development.

Since cooperatives in Malaysia are built around the values of self-help, self-responsibility, democracy, equality, equity and solidarity, the cooperative legislation governing cooperative movements has been developed under the Cooperative Act 1948 (Othman and Kari, 2008). The Act was then reviewed and found to be an instrument which not quite efficient for constitution and control purposes, hence it had been replaced by the Cooperative Act 1993. The fact that tourism and hospitality industry in Malaysia also contributes to the country's economy and plays essential role to sustain the community wealth, the government has expand the roles of budget hotels and accommodation cooperatives within the sectors. As reported by the Malaysia Co-operative Societies Commission or Suruhanjaya Koperasi Malaysia (SKM), there are at least 30 hotels and accommodation including homestay with >1,200 rooms which are owned and managed by the Malaysian cooperatives (Suruhanjaya Koperasi Malaysia, 2012). Among them are; Kuala Lumpur International Hotel, City Park Hotel Kuala Lumpur, City Park Hotel Melaka, 7th Residence Villa Titiwangsa, Damai Villa, Kampung Pelegong Homestay, Jelita Inn Jeli and Eco Camp Mukim batu Putih.

There have been several studies regarding cooperatives which focus on the governance practice. It is a fact that good corporate governance provides positive influence and impacts not only on its owners/members but also to the whole community. Mahazril *et al.* (2012) for instance conducted a study on cooperatives and found that the effectiveness of cooperative management depend on the existence of pillars of good governance such as participation, accountability and transparency. Similar findings were also found by Othman *et al.* (2013). Further, several previous studies also emphasized that the success of cooperatives would depend on the way that cooperative organization structured (Chahudhry *et al.*, 2009). In other study, Salvosa (2007) noted that the ability of cooperatives to provide effective and efficient services was credited to the conscious effort to professionalize management.

Currently, according to Hashim, the strengths of cooperatives have also resulted from governance factors for instance members, share capital, organization, benefits and community involvement. The study additionally highlighted that lack of good corporate governance practices in cooperatives has affected the management capacity and experiences which created a mismatch in the competencies of management and staff. Therefore, to be sustainable, good corporate governance is vital in cooperatives particularly in terms of creating/maintaining a positive corporate image, promoting sound decision-making, preventing fraud and mismanagement, avoiding costly fines and also attracting and retaining financing and investment (Manap and Tehrani, 2014; Dayanandan, 2013; Shaarani *et al.*, 2013).

In the context of tourism and hospitality industry, Adams *et al.*, (2010) emphasized on the vital roles of Boards of Directors in cooperatives governance. Similarly, the study was also conducted by Iwasaki (2008). Studies on the relationship between tourism growth and financial performance which indicated the corporate governance performance in determining economic growth were also conducted by Chen (2010) Dritsakis (2004) and Proenca and Soukiazis (2008). Based on the previous studies, it can be seen that there is a gap particularly concerning the Malaysian budget hotel and accommodation cooperatives. Hence, this study purposely investigated the Board of Directors' perceptions on corporate governance practice in the Malaysian budget hotel and accommodation cooperatives.

**Literature review:** There have been few studies on corporate governance practice in cooperatives in the case of Malaysia. For instance, a study conducted by

Othman *et al.* (2013) found that the major problem in cooperatives are compounded when members have apathy problem and poor networking skills. Their study also indicated that the Board of Directors play an important role in intergrating the action of the managers hence they are given the responsibility to monitor the management performance. They further highlighted that in order to manage the cooperatives effectively, the Board of Directors must have some basic literacy in finance and comprehension on business strategy. Additionally, the previous studies showed the importance of corporate governance to be applied in cooperatives even though the development and implementation of good corporate governance practice for cooperatives remains very much in its early stages (Manap and Tehrani, 2014; Mahazril *et al.*, 2012; Nilsson, 1996; Othman *et al.*, 2013; Shaarani *et al.*, 2013; Salvosa, 2007). Moreover, Mahazril *et al.* (2012) conducted a study among the 250 board of directors of cooperatives in Malaysia and revealed that cooperative that has a strategic plan for at least 3 year significantly contribute towards the success of cooperatives. They however in contrast found that strategic planning and participation from the members were not considered as major factors contributing to the cooperatives performance. Eventually, they concluded that these two factors contribute to the success of cooperatives but they did not affect the performance of the cooperatives. The study finally suggested that the Board members should be involved in the decision making through effective communication and activities.

In a current study, it was suggested that to contribute towards economic and social development, the cooperatives need to be streamlined and overseen by strong and enabling legislation (Manap and Tehrani, 2014). Their study also suggested that to handle the Board of Directors responsibilities and tasks within the cooperatives management, the cooperatives need to develop the human resources with effective information, skills and training. Further, literature on Board of Directors roles also indicated a negative relationship between the board size and firm performance (Haniffa and Hudaib, 2006; Hermalin and Weisbach, 1991; Yermack, 1996). In other studies, it was recommended that better performance is associated with large boards (Adams and Merhan, 2005; Dalton and Dalton, 2005). In contrast, there had been few studies which found that if the board size increases beyond a certain threshold, the disadvantages will offset the advantages of having large boards and in turn, lower firm performance is expected (Jensen, 1993; Lipton and Lorsch, 1992). However, in the stream of literature investigating the role of boards in improving firm performance, there is no consensus regarding whether

large or small boards are better for firms. Additionally, Cuevas and Fisher (2006) highlighted in their study that cooperatives have frequently faced weak external competition through subsidized financing from government which has also enabled inefficient managers to survive thus cooperatives need a supportive governance policy framework to be sustainable. This is supported by a study by Sushila *et al.*, (2009) where they developed a tentative framework which have a long term plan for cooperative which they believed would influence the performance of cooperatives in Malaysia. Significantly, the studies found a positive significant influence of the strategic planning on cooperatives' performances.

## **MATERIALS AND METHODS**

The study was an exploratory based which used a survey questionnaire as a major instrument to gain data to fulfill the objectives. The questionnaire was distributed to the Board of Directors involving 30 budget hotel and accommodation cooperatives throughout Malaysia via mail. The budget hotel and accommodation cooperatives were selected according to the list provided by the SKM in the handbook of Budget Hotel and Accommodation Cooperatives. The population under study should be around 180 based on an assumption that there were six members of the Board of Directors within the 30 cooperatives. After two months, the completed questionnaires returned were only 56 which represented the individual of the Board. Hence the sample to be studied was 31% and was considered reliable as the study was at the early stage of understanding the phenomenon. The data was then further analyzed using Statistical Package for Social Sciences (SPSS) for descriptive statistics such as frequency, percentage and mean values.

The questionnaire was developed in two sections. The first section asked the respondents to fill in their profiles such as gender, age, level of education, occupation, level of income, awareness of the corporate governance practice in cooperatives and also awareness of the existing guidelines regarding cooperatives governance. The second section consisted of 35 items related to the corporate governance practice in cooperatives. The respondents were asked to rate the items by indicating 1 = highly disagree, 2 = disagree, 3 = no answer, 4 = agree and 5 = highly agree. There were nine domains represented corporate governance practice in cooperatives based on the Malaysian cooperatives governance guideline. The first domain was named as Management and consisted of five managerial items while the second domain was named as Appointment and

consisted of three items related to the appointment of the Board, members of cooperatives and also the management.

The third domain was named as Responsibilities and Accountability which consisted of six items concerning the tasks, skills and abilities of the Board, members and management of cooperatives. Further, the fourth domain was named as Information and consisted of three items. Additionally, the fifth domain was named as Assessment and consisted of six items regarding the assessment of the Board, members and the Chief Executive Officer of the cooperatives. The remaining domains were named as Remuneration, then Auditing and Control, followed by Communication and finally Principles and Values which were all consisted of three items each.

## **RESULTS AND DISCUSSION**

### **Board of directors' awareness on corporate governance**

**practice:** The findings regarding the Board of Directors' awareness on corporate governance practice in cooperatives indicated that 85.7% of them aware on corporate governance practice in the cooperatives. Only a small portion of 14.3% of them did not aware of the practice. The findings also indicated that 82.1% of the respondents aware of the existing guidelines regarding corporate governance in cooperatives. As for the Board of Directors' perceptions on the corporate governance practice in cooperatives, the findings generally indicated that majority positively perceived corporate governance as good practice in cooperatives with average mean above 3.0. The most important corporate governance practice identified is 'Policies and practices in rewarding remuneration are implemented through an approach consistent with the culture, objectives, direction and performance of the cooperative'. This is followed by 'Procedure for determining the remuneration package is carried out formally' whilst 'The Board makes official assessment on the overall effectiveness of the Board' is perceived as the least important corporate governance practice in the cooperatives.

**Corporate governance management practice:** The finding of descriptive analysis regarding respondents' perceptions on cooperative governance in terms of the management practice is depicted in Table 1. Majority of the Board of Directors have positive perceptions regarding the management practice in cooperatives with 'cooperative is governed by an effective Board' derived as the most positively perceived item whilst 'cooperative divides balanced responsibilities between the Board

Table 1: Respondents' perceptions on cooperative governance in terms of management practice

Items	Agree (%)	Highly agree (%)
<b>Management</b>		
Cooperative is governed by an effective board	42.9	42.9
Cooperative has a clear mission	44.6	41.1
Cooperative has a clear strategy	41.1	42.9
Cooperative has a clear governance values	46.4	39.3
Cooperative divides balanced responsibilities between the board members	39.3	35.7

Table 2: Respondents' perceptions on cooperative governance in terms of appointment practice

Items	Agree (%)	Highly agree (%)
<b>Appointment</b>		
The process of appointment of new members is formally carried out	39.3	46.4
The process of appointment of new members is transparently carried out	32.1	53.6
Reappointment of members of the board is set at an interval of at least every 3 years	32.1	50.0

members' as the least positively perceived item. It can be seen that 85.8% of the respondents agreed that cooperative is governed by effective Board. The findings also indicated that 85.7% of the respondents agreed that cooperative has a clear mission. Further, the findings also highlighted that 83.3% of the respondents agreed that cooperative has a clear strategy. 85.7% of the respondents significantly agreed that cooperative has a clear governance values. Additionally, 75.0% of the respondents agreed that cooperative divides balanced responsibilities between the members of the Board.

**Corporate governance—appointment practice:** Table 2 depicts the findings regarding the appointment practice in cooperatives. Similarly with the previous findings, majority of the Board of Directors also have positive perceptions regarding this practice. Two items derived as the most positively perceived by the Board namely 'the process of appointment of new members is formally carried out' and 'the process of appointment of new members is transparently carried out'. 85.7% of the respondents agreed that the process of appointment of new members of the Board is formally carried out. Meanwhile, 85.7% of the respondents also agreed that the process of appointment of new members of the Board is transparently carried out. Additionally, 82.1% respondents agreed that the reappointment of members of the Board is set at an interval of at least every 3 years.

**Corporate governance responsibilities and accountability practice:** The finding on responsibilities and accountability of the members in cooperatives is presented in Table 3. Majority of the Board of Directors

Table 3: Respondents' perceptions on cooperative governance in terms of responsibilities and accountability

Items	Agree (%)	Highly agree (%)
<b>Responsibilities and accountability</b>		
Members of the board have appropriate skills	53.6	23.2
Members of the board have appropriate experiences	41.1	33.9
Members of the board are caliber in performing their duties	50.0	30.4
Members of the board are capable of carrying out their duties	53.6	30.4
Members of the board have integrity in performing their duties	44.6	33.9
Members of the board focus and commit to the cooperative	44.6	35.7

Table 4: Respondents' perceptions on cooperative governance in terms of information practice

Items	Agree (%)	Highly agree (%)
<b>Information</b>		
The management provides complete information to the board during the meeting	41.1	30.4
The management provides accurate information to the board during the meeting	41.1	33.9
The management provides up-to-date information to the board during the meeting	44.6	32.1

perceived all the six items positively. The item, 'members of the Board are caliber in performing their duties' derived as the most positively perceived item by the respondents. Meanwhile, the item, 'members of the Board have appropriate skills' derived as the least positively perceived item by the respondents. It can be seen in from the analysis that 76.8% of the respondents agreed that members of the Board have appropriate skills in managing the cooperative. This is then followed by 75.0% of the respondents agreed that members of the Board have appropriate experiences in cooperative. The findings also indicated 80.4% of the respondents agreed that members of the Board are caliber in performing their duties. Interestingly the findings found that 78.5% respondents agreed with both items in this practice-members of the Board are capable of carrying out their duties and members of the Board have integrity in performing their duties. Finally, the findings also highlighted that 80.3% of the respondents agreed that members of the Board focus and commit to the cooperative.

**Corporate governance information practice:** Table 4 presents the findings of respondents' perceptions on cooperative governance in terms of the information practice. Again, majority of the Board of Directors positively perceived all the items in this practice with 'the management provides up-to-date information to the Board during the meeting' derived as the most positively perceived items whilst 'the management provides complete information to the Board during the meeting'

Table 5: Respondents' perceptions on cooperative governance in terms of assessment practice

Items	Agree (%)	Highly agree (%)
<b>Assessment</b>		
The board makes official assessment on the overall effectiveness of the board	51.8	21.4
The Board makes official assessment on the overall effectiveness of the members of the board	50.0	23.2
The board makes official assessment on the overall effectiveness of the Chief Executive Officer	46.4	23.2
The board makes continuous assessment on the overall effectiveness of the board	51.8	19.6
The board makes continuous assessment on the overall effectiveness of the members of the board	51.8	19.6
The board makes continuous assessment on the overall effectiveness of the Chief Executive Officer	46.4	26.8

derived as the least positively perceived item. Based on the analysis, it is shown that 71.5% of the respondents agreed that the management of cooperative provides complete information to the Board during the meeting from time to time. It is also seen that 75.0% of the respondents agreed that the management of cooperative provides accurate information to the Board during the meeting from time to time. The findings finally indicated that 76.7% of the respondents agreed that the management of cooperative also provides up-to-date information to the Board during the meeting from time to time.

**Corporate governance assessment practice:** The questionnaire also asked the Board of Directors regarding the assessment practiced in the cooperatives (Table 5). It is shown from the analysis that three items derived as the most positively perceived assessment practice item namely 'the Board makes official assessment on the overall effectiveness of the Board', 'the Board makes official assessment on the overall effectiveness of the members of the Board' and 'the Board makes continuous assessment on the overall effectiveness of the Chief Executive Officer'. 73.2% of the respondents agreed that the Board of cooperative makes official assessment on the overall effectiveness of the Board. More, the findings also indicated that total 73.2% of the respondents agreed that the Board of cooperative makes official assessment on the overall effectiveness of members of the Board. The findings of analysis also indicated that 69.6% of the respondents agreed that the Board of cooperative makes official assessment on the overall effectiveness of the Chief Executive Officer. Further, the findings indicated that 71.4% of the respondents agreed that the Board of cooperative makes continuous assessment on the overall effectiveness of the Board while 71.4% of the respondents agreed that the Board of cooperative makes continuous assessment on the overall effectiveness of the members of

Table 6: Respondents' perceptions on cooperative governance in terms of remuneration

Items	Agree (%)	Highly agree (%)
<b>Remuneration</b>		
Procedure for determining the remuneration package is formally carried out	39.3	32.1
Procedure for determining the remuneration package is transparently carried out	35.7	37.5
Policies and practices in rewarding remuneration are implemented through an approach consistent with the culture, objectives, direction and performance	41.1	32.1

Table 7: Respondents' perceptions on cooperative governance in terms of auditing and control

Items	Agree (%)	Highly agree (%)
<b>Auditing and control</b>		
Cooperative always avoid a situation of conflict of interest	41.1	25.0
Cooperative implements robust auditing requirements	41.1	30.4
Cooperative maintains an objective and professional relationship among auditors, members of the board and the management	48.2	26.8

the Board. Eventually, the findings indicated that 73.2% of the respondents agreed that the Board of cooperative also makes continuous assessment on the overall effectiveness of the Chief Executive Officer.

**Corporate governance remuneration practice:** The finding of the Board of Directors' perceptions on the remuneration practice provided by the cooperatives is further presented in Table 6. Similarly, majority of the respondents have positive perceptions regarding this practice. The findings firstly highlighted that both 'procedure for determining the remuneration package is transparently carried out' and 'policies and practices in rewarding remuneration are implemented through an approach consistent with the culture, objectives, direction and performance' derived as the most positively perceived items by the Board. It is indicated that 71.4% of the respondents agreed that the procedure for determining the remuneration package in cooperative is formally carried out. 73.2% of the respondents also agreed that the remuneration package in cooperative is transparently carried out. Additionally, the findings on the remuneration indicated that 73.2% of the respondents agreed that the policies and practices in rewarding remuneration are implemented through an approach consistent with the culture, objectives, directions and performance of the cooperatives.

**Corporate governance auditing and control practice:** Table 7 depicts the findings of the Board of Directors' perceptions regarding the auditing and control process in the cooperatives with 'cooperative maintains an objective

Table 8: Respondents' perceptions on cooperative governance in terms of communication practice

Items	Agree (%)	Highly agree (%)
<b>Communication</b>		
Cooperative practices effective communication with members and stakeholders	48.2	32.1
Cooperative practices open communication with employees and stakeholders	50.0	32.1
Cooperative practices effective risk management	46.4	23.2

and professional relationship among auditors, members of the Board and the management' as the most positively perceived item. 66.1% respondents found that the cooperative always avoid s situation of conflict interest. Meanwhile, the findings indicated that 71.4% of the respondents agreed that cooperative implements robust auditing requirements. Significantly, the findings found a high portion of respondents with 75.0% agreed that cooperative maintains an objective and professional relationship among auditors, members of the Board and professional relationship among auditors, members of the Board and the management.

**Corporate governance communication practice:** Table 8 further depicts the findings from the analysis regarding the communication practice within the cooperatives. Majority of the Board of Directors also have positive perceptions regarding this practice. 'Cooperative practices open communication with employees and stakeholders' derived as the most positively perceived item by the Board whilst 'cooperative practices effective risk management' derived as the least positively perceived item by the Board. About 80.3% respondents agreed that cooperative practices effective communication with members and stakeholders. The findings from the analysis also significantly presented a high portion of agreement among the respondents where 82.1% of the them agreed that cooperative practices open communication with employees and stakeholders. More, the findings of the study highlighted that 69.6% of the respondents agreed that the cooperative practices effective risk management.

**Corporate governance principles and values practice:** The final analysis regarding the Board of Directors' perceptions on the principles and values of corporate governance practice in cooperatives is presented in Table 9. Majority of the Board of Directors positively perceived 'cooperative performance is evaluated based on the achievement of the level of member's satisfaction towards quality and service' as the most important item in the principles and values practice. About 76.8% of the respondents agreed that cooperative governance is strong as it is operated transparently. The findings of the study also indicated that 70.3% of the respondents

Table 9: Respondents' perceptions on cooperative governance in terms of principles and values

Items	Agree (%)	Highly agree (%)
<b>Principles and values</b>		
Cooperative governance is strong as it is operated transparently	41.1	35.7
Cooperative affairs are managed with the principles and values of a cooperative	25.7	44.6
Cooperative performance is evaluated based on the achievement of the level of member's satisfaction towards quality and service	35.7	44.6

perceived that the cooperatives affairs are managed with the principles and values of a cooperative. Eventually, the findings of the study also indicated a high portion of 80.3% agreement level among the Board where most of them highly agreed that cooperative performance is evaluated based on the achievement of the level of member's satisfaction towards quality and service.

## CONCLUSION

The study eventually contributes towards the importance of practicing corporate governance in the budget hotel and accommodation cooperatives. Majority of the Board aware of the corporate governance practice and the existing guidelines of corporate governance in cooperatives. This shows that the Board of Directors probably concern in managing cooperatives ethically. Additionally, they also highlight that the policies and practices of corporate governance are in line with the cooperatives objectives and culture. This practice is seen by the Board of Directors as a vital corporate governance practice in the Malaysian budget hotel and accommodation cooperatives. The finding is consistent to Salvosa (2007), Nilsson (1996) and Shaarani *et al.* (2013) where they indicate that the success of cooperatives would depend on the way the cooperatives organizations are structured. Eventually, having policies and practices documented would assist the Board of Directors to manage the cooperatives according to the cooperatives' objectives and culture. Hence this significantly indicates that corporate governance is vital in managing cooperatives and should be given serious attention by the government as to sustain community wealth particularly within the tourism and hospitality industry.

Specifically, the findings support previous studies by Jensen (1993), Lipton and Lorsch (1992) and Mahazril *et al.* (2012) regarding the relationships between corporate governance and the Board participation. The Board of Directors have positive views on the procedure of determining the remuneration and assessment of the CEO, members and also the Board which they believe have been effectively carried out. This is in contrast with

previous study which emphasized that a number of intimately related decision problems are commonly found in cooperative organizations such as the monitoring problem, the follow-up problem, the influence cost problem, the decision problem, incentive problems such as membership body, the amount of financial contribution from members, the degree of contingency between members goals and cooperative goals, as well as the degree of members' involvement with their cooperative (Nilsson, 1996). Generally, the findings indicate that the nine aspects of corporate governance practice have significantly being implemented in the Malaysian budget hotel and accommodation cooperatives. The practices include managing the cooperatives by the Board such as having a clear mission, strategy and value; the process of members' appointment which are carried out formally and transparently; responsibilities and accountability of the Board and members which generally concerns on having appropriate skills, experiences, capability, integrity and commitment. Additionally, the practices also include information provided by the Board; assessment of the Board, member of the Board and Chief Executive Officers; procedure in determining the remuneration package; implementation of the auditing and controlling requirements; having effective communication practice among members; and finally having strong principles and values which are transformed into the members' satisfaction.

Cooperatives movement in the Malaysian budget hotel and accommodation have played significant economic and social role particularly in gaining the community wealth. Using the nine aspects of corporate governance practice specified in the cooperatives guideline eventually assist the Board in managing the cooperative particularly in the budget hotel and accommodation. Further, it also provides a general description on cooperatives as suggested by Tchami (2007) as the social enterprises that are formed and owned by a group of individuals for the purpose of improving their standard of living and the underlying philosophy of cooperatives is essentially service and the well-being of members. By having these practices as guideline in cooperatives would probably solve the issues and challenges which previously contributed to the inefficient performance of cooperatives in Malaysia such as lack of capital, weak governance structure, absence of good governance, lack of managerial talent, lack of integrity among the management and the members in some cooperatives (Mohamad *et al.*, 2013). The study has highlighted the importance of governance in cooperative particularly in the budget hotel and accommodation which could lead to effective management by the Board of Directors.

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