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Perceptions of Organizational Culture and Board Effectiveness on Malaysian Cooperative Board of Directors

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Abstract

This paper is a pilot study that examines the relationship between organizational culture and board effectiveness in cooperative movements. Past studies have shown that organizational culture has influence on performance but there have been very limited studies on its impact on cooperative's board effectiveness. This study aims to examine the impact of organizational culture on Malaysian cooperatives board of directors' effectiveness. The study adopted the survey research design while the population of the study is all board of directors in Malaysian cooperative movements. The study found a significant relationship between organizational culture and board effectiveness in cooperative movements and concludes that organizational culture is very important to enhance organizational performance of the cooperatives.

Keywords: Board Effectiveness, Organizational Culture, Board Of Directors, Cooperative Movement, Malaysia.

Introduction

Cooperative sector is expected to increase its income to boost Malaysian economy as highlighted by The Malaysian Minister of Domestic Trade, Cooperatives and Consumerism, Datuk Hamzah Zainuddin. Cooperatives are expected to increase forty-three percent of its contribution towards Malaysian Gross Domestic Product (GDP) in the next five years whereby as in 2015, cooperatives have contributed RM35 billion to our economy (Bakar, 2015). It is supported by Post (2010) and Iyer (2015) that Malaysian cooperatives have been recognized as the third economic sector with a target income of RM50 billion by 2020. The decrease in the membership number is very worrisome.

According to Malaysia Co-operative Societies Commission (SKM), there is a decrease of 302,892 members from 2015 to 2016 and a decrease of another 291,339 members from 2016 to 2017. It will be a disaster if the number continues to decrease without taking any actions. The problem may worsen and lead to financial losses and finally cooperatives closures. The decrease in the membership numbers must be seriously be taken into consideration to find ways to improve it as Malaysian cooperatives has been recognized as the third contributor to Malaysian GDP with a target income of RM50 billion by 2020. Post (2010) emphasized on some weaknesses in cooperatives including the lack of good culture in the cooperatives. Failure of the Board to perform their duties effectively has resulted in the poor strategic planning of the cooperatives (Mohamad et al., 2013). As such, it is very crucial for the governance of cooperatives to do some improvements to increase its effectiveness (Othman et al., 2016).

Along with the national culture, each organization shares its own culture (Rodrigues, Ferreira, & Marques, 2015). Culture has been widely used as a moderator in research and has positively moderated the relationship between the variables. Among them are Hon & Leung (2011) that stated that culture influenced service employees' motivation and creativity, Limpanitgul, Jirotmontree, Robson, & Boonchoo (2013) attested that culture positively moderated the relationship between cooperation, extra-role service behavior and in-role service behavior among Thai employees working in the Thai organizations, Ying et al. (2009) indicated that supportive culture, a type of organizational culture has a significant moderating effect on the relationship between organizational commitment and job satisfaction. In addition, Zengin Karaibrahimoglu & Guneri Cangarli (2015) highlighted the influence of national culture on the effectiveness of legal settings and regulations on ethical behaviors of firms while Rizwan Qaiser, Munir, & Din Butt (2012) proved that knowledge management practices have a strong positive association with organizational effectiveness. Dubey, Gunasekaran, Helo, & Papadopoulos (2016) emphasized that organizational culture moderates the relationship between the level of top management participation and reconfigurable manufacturing systems as well as manufacturing strategies adoption; while findings from Baines, Lightfoot, Benedettini, & Kay (2009) supported the moderating role of organizational culture between the justice perceptions and organizational citizenship behaviors. Scholars have not reached an understanding of the definition or measurement of organizational culture (Cooke & Rousseau, 1988; Hofstede, Neuijen, Ohayv, & Sanders, 1990; Schein, 2010). However, according to (Kilmann, 1985; Robbins & Judge, 2014; Schein, 2010), organizational culture can be defined as a system of shared beliefs, philosophy, beliefs, values, assumptions, behavior and significant meanings that influence the organizational behavior and bound the organization together.

Organizational Culture and Board Effectiveness

Numerous studies on organizational culture are conducted in connection with organizational effectiveness or performance. However, less attention has been devoted to understanding the critical impact that cultures could have in a variety of organizational issues (Denison, Nieminen, & Kotrba, 2012). Comprehending the organizational culture correctly is fundamental to exploring the manner in which an organization operates and finding a way to improve organizational

performance (Schein, 1984; Ankrah & Langford, 2005). Nevertheless, the organizational culture has not been elaborated clearly in the area of board effectiveness and cooperatives. Limited studies have examined the culture of cooperatives (Rodrigues, Ferreira, & Marques, 2015). Some studies found a positive relationship between the two variables. For instance, an earlier study conducted by Steers (1975) proposed that the measurement of effectiveness is the most discussed issue in the organizational culture literature. A survey and interview done on 348 North American firms stated that culture enhances firm performance (through reduced agency costs) because it enables superior execution (Graham, Campbell, Poadak, & Rajgopal, 2017). However, they mentioned that corporate culture is arguably the most under-researched value driver among the important contributors to firm performance which further suggested that cultural norms are as important as the stated values in achieving success. It is added by Klein, Wallis, & Cooke (2013) that organizational effectiveness is related to the type of culture and that cultural norms are related to the type of leadership styles. A different study was done in Grameenphone, the biggest cellular operator in Bangladesh and the study found that numerous attributes of organizational culture have significant positive influence over the performance of organization as organizational culture is an open system approach which has interdependent and interactive association with organizations performance (Uddin, Luva, & Hossian, 2013).

Organizational culture was also found to not influence performance or effectiveness. A study by Yesil & Kaya (2013) on Indian manufacturing firms found that OC dimensions do not affect firm financial performance. They also revealed the existence of the indirect effect of OC on performance. It was supported by a review done by Cui & Hu (2012) that the theoretical framework and empirical exploration make great sense despite no consistent conclusion on the relationship between the organization culture and corporate performance. They stressed that organization culture could be a moderator or mediator for the relationship. To resolve these inconsistencies, this present study suggests that the relationships between TFL, social capital, SE, and boards of directors' effectiveness are subject to OC conditions. In Malaysian setting, there have been many studies with positive findings such as studies of organizational culture on plant turnaround maintenance employees in petro-chemical companies of PETRONAS, Malaysia (Alhassan, Zulkipli, & Isha, 2014), knowledge sharing on global hi-tech multi-national companies (Islam, Jasimuddin, & Hasan, 2015), small and medium enterprises (SME) in the Information and Communication Technology (ICT) sector (Saxena & Dasgupta, 2017), academics in a Public Institution of Higher Education in Malaysia (PIHE) (Hussein, Omar, Noordin, & Amir, 2016) and also the moderating effect of organizational culture in public sector (Daryoush, 2014). Ying et al., (2009) however found organizational culture to have no moderating effect on between organization commitment and job satisfaction and job performance. There is very scarce research done on organizational culture of cooperative sector in Malaysia. Therefore, there is a need to test the relationships between organizational culture and board effectiveness in Malaysian cooperative sector.

Hence, the following hypothesis is tested:

There is a positive relationship between organizational culture and board effectiveness in Malaysian cooperative sector.

Methodology

A set of questionnaire was developed to collect data on organizational culture and board effectiveness in cooperatives. The respondents of the pilot study are 32 randomly selected board of directors from cooperatives in Selangor. The study was conducted by distributing questionnaires to the directors at their particular organizations. Then, a five-point Likert scale type was used to evaluate their responses. The data collected was then analyzed using Statistical Package for Social Science version 24. Descriptive statistics such as mean scores for overall perceptions of directors were presented while frequency distribution was used to analyze the percentage on perceptions based on years of service in the organization.

The Organizational Culture Assessment Instrument (OCAI) questionnaire was used to gain an understanding into the organizational culture. It was developed by Cameron and Quinn (1999) which consists of four key dimensions which are adhocracy, clan, market and hierarchy. OCAI measures six dimensions of organizational culture including dominant characteristics organizational leadership management of employees, organization glue strategic emphases and criteria of success. The instrument is used to assess the respondent's perception of the assumptions under which the organization operate. Four of the six key dimensions of organizational culture the OCAI are used: dominant-characteristics, management of employees, organization glue and criteria of success. There are four questions related to each of the six dimensions for which the participant responds to a six-point Likert scale between "Strongly disagree" to "Strongly agree". The mean of the six scores connected to the ideal culture type results in the organizational culture score for the individual participant. Following the OCAI methodology, 16 items are included in the questionnaire organized into four parts (corresponding to the four dimensions used) with four descriptions in each part. The OCAI originally used a response scale in which individuals divide 100 points among alternatives. However, the instrument in this study used the Likert scale, in which respondent rate each alternative in each question on a scale of 1 to 5 ranging from strongly agree to strongly disagree. The rating for each of the dimensions was analyzed and summed up. Thus, the results were plotted to determine the strength of each competing culture within the organization. It is argued that each response in the Likert's format create a degree of independence, which ensures objectivity in the research process (Cameron & Quinn, 2006). The mean score for participants in each of the identified groups in the sample serves as the perception of organizational culture score identified by the research questions.

Results and Discussion

In this study, number of male directors is slightly higher compared to female students with 18 male directors and 14 female directors as shown in the following Table 1.

Table 1. Frequency of respondents

Valid		Frequency	Percent	Cumulative Percent
	Male	18	56.3	56.3
	Female	14	43.8	100.0
	Total	32	100.0	

Table 2. Model Summary

					Change Statistics				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	df1	df2	Sig. F Change
1	.486 ^a	.236	.211	5.29181	.236	9.289	1	30	.005

a. Predictors: (Constant), Org_culture

Table 2 displays R, R squared, adjusted R squared, and the standard error. R is the correlation between the observed and predicted values of the dependent variable. The values of R range from -1 to 1. The sign of R indicates the direction of the relationship (positive or negative). The absolute value of R indicates the strength, with larger absolute values indicating stronger relationships. From the table, the correlation coefficient, R, is 0.486. Therefore, we can conclude that board effectiveness is positively correlated with organizational culture and the relationship is moderately strong (R is positive and is in the middle to 1). Meanwhile, the value of our R² is 0.236, which means that 23.6 percent of the total variance in board effectiveness has been ‘explained’. Not very impressive, but not bad either compared with the R² values one tends to get in analyses of social survey data.

Table 3. ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	260.122	1	260.122	9.289	.005 ^b
	Residual	840.096	30	28.003		
	Total	1100.219	31			

a. Dependent Variable: Board_effectiveness

b. Predictors: (Constant), Org_culture

Table 3 indicates that the regression model predicts the dependent variable significantly well. This indicates the statistical significance of the regression model that was run. Here, *p* is 0.005, which

is less than 0.05, and indicates that, overall, the regression model statistically significantly predicts the outcome variable (i.e., it is a good fit for the data).

The independent variable does a good job explaining the variation in the dependent variable as the significance value of F is lesser than 0.05, thus the null hypothesis that all the population values for the regression coefficients are 0 is rejected.

Table 4. Coefficients^a

Model		Unstandardized Coefficients Beta	Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	1.461	12.301		0.119	0.906
	Organizational culture	0.555	0.182	0.486	3.048	0.005

a. Dependent Variable: Board_effectiveness

Based on the coefficients table, since $p\text{-value} = 0.005 \leq 0.05$, we shall reject the null hypothesis. At the $\alpha = 0.05$ level of significance, there exists enough evidence to conclude that the slope of the population regression line is not zero and, hence, that organizational culture is useful as a board effectiveness.

In terms of the variables used, the regression equation is

$$\text{Board effectiveness} = 1.461 + 0.55 * \text{Organizational Culture}$$

The coefficient for Organizational Culture is 0.55. Hence, for every unit increase in Organizational Culture score, we can expect an increase in the Board Effectiveness score. This is statistically significant at $t = 3.048$, $p < 0.05$. The coefficient for Organizational Culture (0.555) is statistically significant different from 0 using alpha of 0.05 because p-value is 0.005, which is smaller than 0.05.

Conclusion

It is believed that organizational culture plays an important role in cooperative movements performance. Findings from this study showed that organizational culture was perceived to have a significant influence on board of directors' effectiveness in cooperative movements. This paper is a pilot study on the perceptions of organizational culture and board effectiveness on Malaysian cooperative board of directors. The literature on organizational culture has shown that it has significant positive influence over the performance of organization. It is hoped that the findings from this study will contribute to a better understanding of the impact of organizational culture on board effectiveness of cooperative movements in Malaysia. Findings of this study are also hoped to help the cooperative movement industry to increase their performance to achieve the national vision as a driver of the cooperative excellence to contribute towards national development.

Limitation and Future Research

The major limitation of this study is the inability to generalize from the findings which may not be able to represent the whole picture of what is happening in this country. This is due to the nature of study which is only a pilot study with small number of respondents. Before recommendations are made to establish the greatness of organizational culture towards board effectiveness, more researches need to be conducted. The sample size is relatively small which comes from selected one state in Malaysia.

Future studies may focus on how the organizational culture may impact board effectiveness on cooperatives' performances as well as proposing other predictors such as work ethics, work culture and other variables. Future research could extend the sample to all states in Malaysia including Sabah and Sarawak (East Malaysia). The study can also be replicated to other countries as well.

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