The Link Between Marketing Capabilities and Co-Operative Performance in Malaysia

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Abstract: Co-operative is a business entity established with voluntary participation to enhance the economic status of members, communities, and the country. As the third significant contributor to the nation's economic, due attention is essential in addressing some issues related to co-operative performance. Among these issues was the inability to meet the goals of the National Co-operative Policy II (2011-2020) as well as the low level of contribution to the country's GDP, despite various support provided by the government. Based on the literature, marketing capabilities are predicted to enhance co-operative performance, but less research has been conducted on this relationship, particularly in the Malaysia. Thus, 500 questionnaires were distributed to randomly selected co-operatives in Malaysia. In all, 133 sets of questionnaires were successfully collected, which showed a 27 percent response rate. This study utilises SPSS software to perform the required statistical analysis of the data survey. This study uses a simple random sampling method to select a sample based on a list of registered co-operatives from the Malaysian Co-operative Commission. Thus, this study found the marketing capabilities have positive and significant relationship with co-operative performance. The evidence from this study suggests that the co-operative needs to develop the marketing capabilities in order to enhance performance. The findings of this study will help the government to streamline the co-operative sector in Malaysia with the strategic planning and policies so that the co-operative sector would be stronger, competitive, and able to improve performance and contribution to economic as well as GDP of the country.

Keywords: Marketing Capabilities, Co-operative Performance, Co-operative, National Co-operative Policy II

1. Introduction

The primary purpose of the establishment of co-operatives is for the development of the community and to improve the living standards of its members(Lidasan et al., 2018). Co-operative raise funds from its members to get into the business. The profit from the business distributes back to co-operative's members in the form of a dividend. The International Co-operative Alliance(2015) describes co-operatives as a group of autonomous individuals voluntarily involved in realising and fulfilling everyday needs and aspirations in the economic, social, and cultural spheres through democratically owned and controlled organisations.

It is an organisation based on the concept of self-help, where the main goal is to help improve the living standards of members and attend the issues of the local community, and its membership is voluntary. The co-operative sector is also able to provide benefits to its members by improving the living standards of its members, especially the low and middle-income population, to the extent of being able to releases them out from poverty(Azma Othman et al., 2014; Shakir et al., 2020). Co-operatives also make an essential contribution to the economic development of the country through the creation of employment opportunities that can reduce the level of poverty in the country(Hafizah Hammad Ahmad Khan et al., 2016).

The co-operative sector in Malaysia is the third most crucial sector in propelling the country's economic development to emerge as a developed country(SKM, 2010). The development of the co-operative sector in Malaysia shows positive growth from year to year. During the five years periods between 2013–2017, the number of co-operatives has increased at an average rate of 6.2% per annum, share capital 2.97%, assets 6.9%, and turnover 5.39% per annum. In 2018, there were 14,247 registered co-operatives with a membership of 6.06 million members, share capital of RM14.9 billion, and assets worth RM139.7 billion(SKM, 2019). Through these financial resources and strengths, the co-operative has generated revenue amounting to RM40.3 billion for the year 2018(SKM, 2019). The government, through the National Co-operative Policy II (NCP II) (2011–2020), set targets that the co-operatives sector contributes about RM50 billion to the Gross Domestic Product (GDP) by 2020(SKM, 2010).
The increasing number of co-operatives every year does not reflect the achievement of this sector. Although the Co-operative Sector Economic Report in 2013 to 2019 showed an increasing number of registered co-operatives and membership, the percentage of co-operatives suffered losses in 2013 was 11 percent to 26 percent in 2017(SKM, 2018). The turnover of the co-operative sector in 2018 is about RM40.3 billion(SKM, 2019), while the target set by the National Co-operative Policy is at RM50 billion by 2020. Hence, due to this development, the Co-operatives sector is considered unable to achieve RM50 billions of turnover by 2020.

Although the government provides various assistance, the contribution of the Co-operative sector to the Gross Domestic Product (GDP) still low. The contribution of the Co-operative sector to GDP from 2013 to 2017 was at 1% - 3%.(The Star Online, 2018). This rate is still low compared to NCP’s initial target at 10% of the cooperative sector contribution to the GDP. This data shows that the contribution of the co-operative sector to the Malaysian economy is still relatively low and fails to achieve the goals set out in the National Co-operative Policy. Therefore, there is a need to empirically explore factors that can improve the performance of Co-operative in Malaysia.

The critical issue frequently addressed regarding the co-operatives sector in Malaysia are performance and factors affecting co-operative performance(Hafizah Hammad Ahmad Khan et al., 2016; Musa et al., 2016; Nooraslinda Abdul Aris et al., 2018; Shakir et al., 2020). However, to date, less empirical research on the performance of co-operative in Malaysia has been carried out (Hashim & Fawzi, 2015; Shakir et al., 2020).

A few studies from Malaysian researchers such as Shakir et al. (2020), Musa et al.(2016), and Dzulkarnain et al. (2014) empirically tested the relationship between the factors affecting co-operative performance. They found that human capital, member participation, and entrepreneurial orientation has a significant relationship with co-operative performance, respectively.Nooraslinda Abdul Aris et al. (2018)and Rohana Othman et al. (2016)highlighted that marketing capability as one of the factors affecting co-operatives performance. However, this relationship is not empirically proven by any researchers.

According to Fejza and Asllani (2013), marketing capabilities is one of the business capabilities that will beenhancing business performance. Moreover, the Fourth Strategic Thrust in NCP II, 2011-2020 stressed that the co-operatives should equip themselves with the excellent marketing capabilities so that it will help the co-operative sector to spur performance to the superior level. As most of the statement mentioned above is not empirically proven, the need to study the relationship between marketing capabilities and co-operative performance is highly critical. The result of the study may confirm the nature of the relationship between marketing capabilities and co-operative performance.

2. Literature Review

The literature on marketing capabilities and business performance in the co-operative sector is hard to find. Hence, this section will emphasise the discussion on marketing capabilities and organisational performance from the perspective of scholars from various sectors and industries.

Marketing Capabilities

Day(1994) defines marketing capabilities as a pool of accumulated skills and knowledge, implemented through organisational processes that enable businesses to coordinate activities and use owned assets. Marketing capability is also defined as the ability to use the knowledge, skills collectively, and resources possessed by a firm to differentiate its products and services from competitors to form a successful brand(Jin & Cho, 2018; Juliana Conceiçao Noschang da Costa et al., 2018).

Studies related to marketing capabilities and their impact on business performance began in 1987 but only received serious attention among researchers and academics starting from 2010(Kamboj & Rahman, 2015). From Resource Base View (RBV) perspective, marketing capabilities are organisational resources which have high value, scarce, difficult to replicate, and have no substitutes(Theodosiou et al., 2012; Vorhies et al., 2011), so it has been identified as a vital element to develop firm competitive advantage(Day, 1994) and also to improve business performance(Krasniovk & Jayachandran, 2008).

Marketing capabilities enable businesses to differentiate their products and services from competitors and form successful brands(Kotabe et al., 2002). Wilden et al.(2016) and Zhou and Li(2010) state that good marketing capabilities enable business organisations to be more effective and efficient in selecting the activities needed to produce and deliver products or services desired by consumers. It is a form of skills, knowledge, and
experience possessed by the business, which allows the company to manage complex and challenging tasks in management and production. Vorhies and Morgan (2005) divide marketing capabilities into two types, namely (i) individual marketing mix process, which refers to product development and management, pricing, sales, marketing communications, and (ii) channel management which refers to marketing strategy development and implementation process.

Vorhies et al. (2009) measure marketing capabilities into two dimensions, namely as specialised marketing capabilities and architectural marketing capabilities. The specialised marketing capabilities refer to the specific knowledge of marketing possessed by employees. It relates to marketing activities such as marketing communications, personal sales, pricing, product development, and distribution. Furthermore, specialised marketing capabilities help businesses to differentiate product based on marketing strategies. It also communicates about product benefits to customers.

The architectural marketing capability is the ability to coordinate specific marketing capabilities by focusing on the use of resources to achieve product and market goals. Architectural marketing capabilities support product differentiation strategies by gathering information from the market environment and developing marketing plans based on data collected from the market. These marketing capabilities are needed to plan and coordinate, as well as ensure successful marketing program activities.

Co-operatives need to pay serious attention to their strategic planning related to marketing issues. Understanding customer needs and wants helps the co-operative generate sales and profit. Innovating positive customer perception towards is also essential, which in turn may strengthen customer loyalty. Innovation in every aspect of the business operations might guarantee the firm to stay ahead from its rival (A., Ku Ishak et al. 2019). In line with these, co-operatives need to understand and identify the strengths of its marketing mix so that it can attract more consumers to buy its products and services (Nur Shuhada Mohd Ali, 2014).

In this growing and competitive business environment, more and more competitors exist in the market. Coupled with the increasingly volatile global economic situation, it adds to the challenges for co-operatives (Mohamad Haswardi Morshidi, 2017). The same business among different competitors will cause the size of the market share held by the co-operative to become smaller. So co-operatives need a more substantial marketing capability to stay competitive (Nur Shuhada Mohd Ali, 2014). Marketing is one of the most critical tools and is the key to the success of a co-operative business (Lagat & Frankwick, 2017). This statement supported by the opinion of Davcik and Sharma (2016). They suggested further studies to see the impact and role of marketing capabilities and business performance.

Marketing Capabilities and Organisational Performance

The relationship between marketing capabilities and business performance is gaining the attention of many researchers (Jin & Cho, 2018; Lagat & Frankwick, 2017; Morgan et al., 2018). Past studies such as Brouthers et al. (2015), Jolly et al. (2016), Martin and Javalgi (2016) as well as Jin and Cho (2018) have confirmed that marketing capabilities have a significant relationship with business performance. A meta-analysis study conducted by Kamboj and Rahman (2015) shows that marketing capabilities gave a positive impact on business performance. However, the findings from these studies are not in the co-operative sector. There are some unique characteristics of co-operatives that differentiate it from other forms of business.

Furthermore, the results of a study by Juliana Conceição Noschang da Costa et al. (2018) and Cruz-Ros et al. (2010) found an insignificant relationship between marketing capabilities and organisational performance. These findings prove that the relationship between marketing capabilities and organisational performance is still inconclusive. This study predicts that there will be a significant relationship between marketing capabilities and co-operative performance. Hence, this study attempt to answer the Hypothesis H1 as stated below.

**H1: Marketing capabilities have a significant relationship with co-operative performance.**

**Measurement of Marketing Capabilities**

According to Massiera et al. (2018), most studies related to marketing capabilities use measurements derived from the studies of Vorhies and Morgan (2003, 2005) and Morgan et al. (2009). In a study conducted by Massiera et al. (2018), there is a change made on the concept of marketing capabilities. Thus, this study uses a multidimensional construct taking into account two marketing capability approaches highlighted by Vorhies et al. (2009) and Morgan (2012), namely specific marketing capabilities and architectural marketing capabilities.
This study uses measurements developed through the research of Massiera et al. (2018), based on the actual measurements developed through the study of Vorhies and Morgan (2003, 2005) and Morgan et al. (2009). The marketing capabilities consist of eight dimensions with 24 items of question. All items were measured using a seven-point scale ranging from 1 (strongly disagree) to 7 (strongly agree). Question items used to measure marketing capabilities are listed in Table 1;

**Table 1. Measurement of Marketing Capabilities**

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Item</th>
</tr>
</thead>
</table>
| **Ability to study the market environment** | • Our co-operative regularly monitors changes in the external environment: market, trends, consumption.  
• Our co-operative conducts a detailed analysis of its competitors, their strengths, offerings, and performance.  
• When something important happens with a major customer or market, the whole co-operative is informed within a short period. |
| **Ability to study consumer needs** | • Our co-operative conduct studies or surveys on the needs of its clientele.  
• Our co-operative endeavors to detect needs that are not expressed by its clientele.  
• Our co-operative encourages sales representatives and other frontline marketing employees to gather information about customer needs. |
| **Ability to study customer relations** | • Our co-operative evaluates customer satisfaction.  
• Our co-operative take suggestions or criticisms from its customer to improve its product or service offerings.  
• Our co-operative maintain a positive brand image relative to competitors. |
| **Ability to formulate a marketing strategy** | • Our co-operative identify different potential customer categories by their needs or profiles.  
• Our co-operative selects and targets the most relevant identified or potential customer categories.  
• Our co-operative always carefully evaluated various idea and marketing strategy alternatives. |
| **Ability to manage the product portfolio** | • The development of our new products and services meets the expectations of the customers.  
• Our co-operative maintains or modifies its products or services, so they continue to suit the demands of the market.  
• Our co-operative's product and service offerings stand out from those of our competitors. |
| **Ability to manage a pricing policy** | • The prices of our products or services are determined after a precise analysis of their cost and profitability.  
• The prices of our products or services are determined based on their competitive advantages and how customers perceive them.  
• Our co-operative monitor competitors' pricing tactics and respond promptly to market price changes. |
| **Ability to manage the retail network.** | • Our co-operatives attract and retain sales reps and distributors best suited to our business.  
• Our co-operative provides our commercial network or sales teams with sales pitches, documentation, or tools to boost sales.  
• Our co-operatives establish strong and close relationships with our sales representatives or distributors. |
| **Ability to manage integrated marketing** | • Beyond the technical characteristics of the product, our co-operatives also communicate the benefits derived from it to customers.  
• Our co-operative's communication is personalised to suit the profiles and |
communications behaviour of our customers.

- Our co-operative can achieve our communication target.

Adapted from Massiera et al. (2018)

Based on the literatures, Figure 1 shows the conceptual framework of the study, which illustrates the relationship between marketing capabilities and co-operative performance.

![Conceptual Framework](image)

**Figure 1. Conceptual Framework**

### 3. Methodology

This study employed a quantitative approach to measure the relationship between marketing capabilities and co-operatives' performance in Malaysia. A survey instrument developed to collect data regarding this study. The population of the study are 9,742 active co-operatives registered with the Malaysia Co-operative Societies Commission in the year of 2020. The sample size is 109, as suggested by GPower procedures.

However, the 500 questionnaires distributed to the respondents due to low response rate experienced by previous researchers. The respondent of the study is a member of the Co-operative Board of Directors ranging from Chairman to Directors; any of them would become a potential candidate to be a respondent representing the co-operative.

Marketing capabilities is a multidimensional construct which consists of eight dimensions suggested by Massiers et al. (2018). The eight dimensions are the ability to study the market environment, ability to study consumer needs, ability to study customer relations, ability to formulate a marketing strategy, ability to manage the product portfolio, ability to manage pricing policy, ability to manage the retail network, and ability to manage integrated marketing communications. There are 24 items of questions adapted from Massiers et al. (2018), representing the eight dimensions of marketing capabilities. The co-operative performance is a unidimensional construct adapted from Khairunnisak Ahmad Shakir (2017). A subjective approach used to obtain data from respondents on the seven items of questions. The measurement scale of seven Likert scales used to measure the perception of respondents to 32 survey items representing marketing capabilities and co-operative performance. A Cronbach Alpha coefficient for marketing capabilities and co-operative performance are 0.965 and 0.970, respectively.

### 4. Result and Discussion

From the data collection, this survey received 135 responses from the respondent. However, this study had to reject two responses due to incomplete. Thus, there are 133 usable responses representing 26.6% of the total number questionnaire distributed to the respondents. Table 2 shows the demographic profile of co-operative involved in this study.
Table 2. Co-operative Demographic Profile

<table>
<thead>
<tr>
<th>Demographic</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cluster:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- micro</td>
<td>39</td>
<td>29.3</td>
</tr>
<tr>
<td>- small</td>
<td>64</td>
<td>48.1</td>
</tr>
<tr>
<td>- medium</td>
<td>23</td>
<td>17.3</td>
</tr>
<tr>
<td>- large</td>
<td>7</td>
<td>5.3</td>
</tr>
<tr>
<td><strong>Registered Function:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Service</td>
<td>51</td>
<td>38.3</td>
</tr>
<tr>
<td>- Credit</td>
<td>7</td>
<td>5.3</td>
</tr>
<tr>
<td>- Consumer</td>
<td>29</td>
<td>21.8</td>
</tr>
<tr>
<td>- Agricultural</td>
<td>12</td>
<td>9</td>
</tr>
<tr>
<td>- Transport</td>
<td>1</td>
<td>0.8</td>
</tr>
<tr>
<td>- Construction</td>
<td>4</td>
<td>3.0</td>
</tr>
<tr>
<td>- Industrial</td>
<td>1</td>
<td>0.8</td>
</tr>
<tr>
<td>- Others</td>
<td>28</td>
<td>21</td>
</tr>
<tr>
<td><strong>Establishment Period:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- &lt; 10 years</td>
<td>86</td>
<td>64.7</td>
</tr>
<tr>
<td>- 11-30 years</td>
<td>25</td>
<td>18.8</td>
</tr>
<tr>
<td>- 31-50 years</td>
<td>16</td>
<td>12.0</td>
</tr>
<tr>
<td>- 51+ years</td>
<td>6</td>
<td>4.5</td>
</tr>
<tr>
<td><strong>The number of Co-operative Board Member:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- 6-9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- 10-12</td>
<td>38</td>
<td>28.6</td>
</tr>
<tr>
<td>- 13-15</td>
<td>52</td>
<td>39.1</td>
</tr>
<tr>
<td></td>
<td>43</td>
<td>32.3</td>
</tr>
</tbody>
</table>

The Pearson Correlation analysis was employed to measure the relationship between marketing capabilities and co-operative performance. The analysis facilitates this study to determine the direction and strength of the relationship. According to Pallant (2005), the correlation coefficient at +1 considered as a perfect positive direction, and the value of -1 is considered a perfect negative direction. The strength of the relationship is determined by using a scale proposed by Pallant (2005), as shown in Table 3.

Table 3. Correlation Value dan Relationship Strength

<table>
<thead>
<tr>
<th>Correlation Value</th>
<th>Relationship Strength</th>
</tr>
</thead>
<tbody>
<tr>
<td>r=0.10 to 0.29 / r=-0.10 to -0.29</td>
<td>Weak</td>
</tr>
<tr>
<td>r=0.30 to 0.49 / r=-0.30 to -0.49</td>
<td>Moderate</td>
</tr>
<tr>
<td>r=0.50 to 1.00 / r=-0.50 to -1.00</td>
<td>Strong</td>
</tr>
</tbody>
</table>

Source: Pallant (2005)

The result of the analysis found that there is a positive and significant relationship between marketing capabilities and co-operative performance. The Pearson correlation coefficient of 0.477 signifies the strength of the relationship between marketing capabilities and co-operative performance is moderate. Therefore, the hypothesis of H1 is accepted.

Table 4. Pearson Correlation Result

<table>
<thead>
<tr>
<th>Co-operative Performance</th>
<th>Pearson Correlation</th>
<th>Sig.(2 tailed)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marketing Capabilities</td>
<td>.477**</td>
<td>133</td>
</tr>
</tbody>
</table>

**. Significant correlation at 0.01 level (2-tailed)
This study also conducted a linear regression test. It is used to determine the effect of marketing capabilities on co-operative performance. Based on Table 5, the result has shown that $\beta = 0.477$ and the value of $R^2 = 0.227$. The value of $R^2$ is a coefficient of determination, which means marketing capabilities explained 22.7% of co-operative performance. In comparison, other factors explain the remaining 77.3%.

| Table 5. Linear Regression Test Analysis |
|-------------------------------|---|---|---|---|
| Variables                      | B  | SEB | $\beta$ | t  | p  |
| Outcome: Co-operative Performance |    |     |         |    |    |
| Constant                       | 1.272 | .551 | 2.309 | .023 |
| Predictor: Marketing Capabilities (MC) | .681 | .110 | .477 | 6.207 | .000 |
| $R^2$                          | .227 |
| $R^2$ Adjusted                 | .221 |
| $F$                            | 38.522 | p = .000 |

Thus, the regression equation model is, Co-operative Performance = 1.272 + 0.681(MC). This regression equation means that without marketing capabilities, the co-operative's performance is 1.272. The regression coefficient of marketing capability is 0.681, $p <0.05$, which states that each addition of marketing capabilities will improve co-operative performance by 0.681. These results confirmed that there is a linear relationship between marketing capabilities and co-operative performance, as suggested by (Ho, 2006). The result of linear regression analysis discovered that the marketing capabilities have a significant effect on co-operative performance.

5. Conclusion

Marketing capabilities are an essential element in the co-operative sector. It provides a foundation where a co-operative able to innovate a product or service that is unique and different from its competitors. Good marketing capabilities enable co-operatives to be more effective and efficient in selecting the appropriate activities needed to produce and deliver the products or services desired by customers.

In the competitive business environment, the entry of new companies and the existing rivalry in the market may add challenges to co-operatives. Hence, in order to overcome the fierce competition form its competitors, the co-operative needs to streamline its marketing capabilities to stay competitive. Marketing is one of the most critical tools and is the key to the success of the co-operative business.

The findings of this study are in line with the statement of previous scholars who stated that the function of marketing capabilities is crucial to a business (Fejza & Asllani, 2013; Urbonavicius et al., 2007; Urbonavicius & Dikcius, 2008). This study considers the views from the previous researchers on the function and importance of marketing capabilities on the performance of any business organisations. Marketing capabilities have been proven able to improve co-operative performance and maintain a competitive advantage. This study contributes to expanding further the literature review as well as the field of knowledge related to marketing capabilities and co-operative performance, also providing answers to the findings of previous studies that are not conclusive.

This study also confirms the role of marketing capabilities as an intangible source of co-operative performance based on the RBV theory. A complete conceptual framework requires a fair and accurate measuring instrument. The instruments of measurement of marketing capabilities and co-operative performance used in this study show a high level of reliability and validity. Therefore, the instruments used in this study can be adapted by any researchers in the future.

The findings of this study can provide critical input to stakeholders such as co-operative members, the board of directors and the government. The marketing capabilities is considered as of the critical organisational resources to the co-operative. Thus, the co-operative must continuously evaluate and review their marketing capabilities in order to stay ahead in the competition. The government thru Malaysia Co-operative Societies Commission must recognise the importance of marketing capabilities to the co-operative sector. Assistance on how the co-operative can develop the marketing capabilities thru training has become a must.

The development of training programs needs to be streamlined and further strengthened. Marketing-related inputs can be included in the training content. Strengthening the knowledge and skills on marketing capabilities among co-operative members, the board of directors and managers is essential in order to enhance effective...
decision making related to marketing issues. The findings of this study provide input to the government to further strengthen the management, development, and monitoring of co-operatives in Malaysia. Thus, the government’s aspiration to see co-operatives function as a medium of national transformation to improve the living standards of the people, eradicate poverty, and the country’s wealth distribution agents will be realised. It is hoped that this effort will further streamline the operation of co-operatives in Malaysia as well as to improve the performance of co-operatives. Finally, co-operatives in Malaysia will be able to achieve the level of contribution to GDP which set in the Malaysian Cooperatives Policy 2011 - 2020.

For future research, more factors which affecting co-operative performance need to be explored and researched. The result from studies provides a significant contribution to the body of knowledge in the co-operative sector. The co-operative sector is a less-research sector as compared to Small & Medium Enterprise.

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