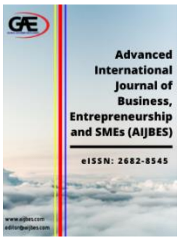
Advanced International Journal of Business, Entrepreneurship and SME's
AIJBES
EISSN: 2682-8545
Volume 7 Issue 24 (June 2025) PP. 288-302
DOI 10.35631/AIJBES.724019



ADVANCED INTERNATIONAL JOURNAL OF BUSINESS, ENTREPRENEURSHIP AND SMES (AIJBES)
www.aijbes.com

GLOBAL ACADEMIC EXCELLENCE

THE INFLUENCE OF FINANCIAL MANAGEMENT AND FINANCIAL LITERACY ON CO-OPERATIVE PERFORMANCE IN MALAYSIA

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Article Info:

Article history:
Received date: 27.03.2025
Revised date: 17.04.2025
Accepted date: 25.05.2025
Published date: 16.06.2025

To cite this document:

Hamzah, S. M., & Yusoff, M. N. H. (2025). Analysis of The The Influence Of Financial Management And Financial Literacy On Co-Operative Performance In Malaysia. *Advanced International Journal of Business Entrepreneurship and SMEs, 7* (24), 288-302.

DOI: 10.35631/AIJBES.724019

Abstract:

Co-operative firms in Malaysia play a vital role in national economic development, yet they continue to face ongoing challenges, particularly in the area of financial management. This study explores the link between financial management, financial literacy, and the performance of co-operatives in Malaysia. Based on existing literature, it is evident that sound financial management practices are positively correlated with improved co-operative performance. Previous research reveals that many co-operative shareholders lack adequate knowledge of financial management, which contributes to less-than-optimal performance. To bridge this gap, the study introduces a conceptual model that positions financial literacy as a moderating factor in the relationship between financial management and co-operative performance an element that has been largely neglected in earlier research. The findings underscore the need to enhance both financial management skills and financial literacy among co-operative stakeholders. The study recommends collaborative initiatives involving government bodies and non-governmental organizations to strengthen shareholders' financial capabilities. Improving financial literacy is expected to not only lead to better individual financial decisions but also significantly enhance co-operative performance. Future studies should empirically test the proposed model and consider other influencing factors such as the size, age, and industry of the co-operative. Strengthening financial practices and literacy can pave the way for sustainable growth and enable co-operatives to make a greater contribution to Malaysia's economic progress.

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Keywords:

Co-operative Firm, Co-operative Performance, Financial Literacy, Financial Management, Sustainable Growth.

Introduction

The co-operative sector is integral to Malaysia's economic development, complementing efforts by both the government and private sectors (Suruhanjaya Koperasi Malaysia [SKM], 2010). Through active member participation in various business activities, co-operatives contribute significantly to the national economy ('Aini et al., 2012). The sector was projected to contribute 10% to Malaysia's GDP by 2020 (SKM, 2013).

Despite a steady increase in the number of co-operatives from 14625 in 2019 to 15,809 in 2023, their financial performance remains a major concern (SKM, 2023). The growth in numbers has not translated into proportional improvements in financial performance or economic impact. As illustrated in Table 1, while total assets and revenue have increased over time, the overall contribution to national GDP remains below expectations.

Table 1: Growth Co-operative in Malaysia (2019-2023)

Year	Number of Co-operative	Total Asset (RM Billion)	Total Revenue (RM Billion)
2019	14625	146.77	45.79
2020	14629	150.48	41.45
2021	14834	154.98	37.89
2022	15315	159.60	45.50
2023	15809	165.80	64.50

Sources: SKM, 2023; 2022; 2021; 2020; 2019

Several underlying issues have been identified. Studies have reported weaknesses in financial governance, lack of effective internal controls, and poor financial management practices (Khan et al., 2016; Othman, 2014). These deficiencies contribute to the mismatch between increasing assets and stagnant profitability. Additionally, unresolved liquidity and leverage problems continue to plague many co-operatives (Safiyuddin et al., 2021), while Hashim et al. (2025) highlight significant knowledge gaps in financial management that increase financial vulnerability. These challenges are further amplified by globalization, economic volatility, and the lack of strategic financial planning, particularly among leadership teams.

A key factor influencing co-operative performance is financial literacy. Financial literacy has been widely acknowledged as critical in shaping effective financial decision-making, both in academic research and policy debates (Lusardi & Mitchell, 2014). In the Malaysian co-operative context, many board members and managers lack formal financial training, which undermines financial decision quality and long-term sustainability (Yusof et al., 2022).

According to SKM (2020), in 2019, Malaysian co-operatives collectively held RM146.78 billion in assets and generated RM45.80 billion in revenue. However, their contribution to GDP has not kept pace with national economic growth. Recent findings continue to raise concerns: Safiyuddin et al. (2021) reported unresolved liquidity and leverage issues, while Hashim et al. (2025) emphasized substantial knowledge gaps in financial management that heighten financial

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DOI 10.35631/AIJBES.724019

risk. These problems are further exacerbated by globalization, market liberalization, and economic volatility, which demand more robust and financially literate leadership. The table below showed that the statistic numbers of co-operative in Malaysia.

This study examines Malaysian co-operatives, focusing on the impact of financial management and financial literacy on their performance. It specifically investigates the relationship between financial literacy and financial management practices, and how both influences overall co-operative performance.

Literature Review

Co-operative Performance

Co-operative performance is a key indicator of an organization's effectiveness in achieving its economic and social objectives. As noted by Carton and Hofer (2010) and Hassan et al. (2015), many studies have examined performance as a dependent variable when assessing the success of co-operatives. However, definitions of performance vary significantly depending on context, goals, and the nature of the co-operative itself. Shamsuddin et al. (2018) argue that financial stability remains one of the most widely accepted benchmarks for assessing co-operative performance. Traditionally, performance has been evaluated through financial indicators such as liquidity ratios, profitability ratios, return on assets (ROA), return on equity (ROE), and net profit growth. These indicators offer insight into a co-operative's ability to generate income, manage costs, and sustain operations over time.

In addition to financial metrics, more recent literature highlights the relevance of non-financial performance indicators in capturing a comprehensive understanding of a co-operative's health. These include member participation, customer satisfaction, governance quality, and social or environmental impact. Such indicators align with the foundational principles of co-operatives, which emphasize democratic participation, community development, and ethical management. For instance, Janudin et al. (2023), in their study of the top 100 co-operatives in Malaysia, emphasized the importance of contemporary performance measurement systems that integrate both financial and non-financial metrics. Their findings showed that such integrated approaches significantly contribute to improving managerial performance and organizational commitment.

Moreover, a study by Ghani, Shabri, and Mohamed (2024) revealed that internal organizational factors such as leadership, governance structure, and internal controls significantly affect the governance and performance of Malaysian co-operatives. This finding underscores the need to consider organizational characteristics alongside financial outcomes. Similarly, Andarwati, Fristin, and Qiong (2023) investigated the role of knowledge sharing and innovation capability in Indonesian co-operatives and found that these factors have a strong positive influence on overall performance, suggesting that intangible assets like knowledge and innovation are becoming increasingly vital for sustainability.

These contemporary studies indicate a growing consensus that performance should not be limited to financial results but should also encompass broader organizational and stakeholder-based outcomes. Therefore, this study adopts a dual approach to performance measurement, utilizing both financial and non-financial indicators to ensure a robust and multidimensional understanding of co-operative success as used in previous studies studies (Abbas et al., 2013; Amir et al., 2018; Lazăr, 2016).

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Financial Management

Financial management is pivotal in steering an organization towards its objectives by efficiently and effectively managing its financial resources. Meredith (2006) defines financial management as the strategic planning, organizing, directing, and controlling of financial undertakings in an organization. Jennifer and Dennis (2015) further emphasize its fundamental role in ensuring business success, highlighting its influence on profitability, cash flow, expense control, and credit management. Nazir and Afza (2009) elaborate that financial management encompasses practices aimed at optimizing returns through meticulous planning and control of financial activities.

Recent studies have underscored the essential role of financial management in organizational success. For instance, Salman and Hanif (2024) examined the effects of financial management practices on organizational performance and found that comprehensive financial management significantly contributes to success. Notably, well-executed budgeting and cash flow management were identified as particularly influential. Likewise, Khair et al. (2023) investigated the impact of financial management on the growth of Small and Medium Enterprises (SMEs) in Makassar. Their study revealed that financial management practices explained 72% of the variance in SME growth, with financial record-keeping emerging as the most significant factor.

Within the Malaysian context, Ramzi et al. (2023) developed a model underscoring the significance of financial management practices in enhancing the performance of Small and Medium Enterprises (SMEs). Their findings demonstrated that effective financial management practices contribute to improved managerial efficiency, increased capital availability, and enhanced operational margins, which collectively facilitate business growth. Furthermore, Adeel et al. (2024) investigated the effects of financial strategies, risk management, and budgetary controls on organizational performance, highlighting the mediating role of financial decision-making. Their results emphasize the necessity of integrating sound financial strategies with effective risk management frameworks to bolster organizational resilience and performance.

This study examines financial management through two fundamental components: working capital management, capital budgeting, and investment decisions (Richards & Laughlin, 1980; Wang & Yan, 2007; Deloof, 2003; Aktas, Croci, & Petmezas, 2015). These components are considered essential for understanding the management of financial resources within co-operatives and their subsequent effect on overall performance. Furthermore, this paper distinguishes between two types of financial management.

Working Capital Management

Working capital management (WCM) is crucial for the daily operations of co-operatives, influencing procurement, production, sales, and investments in accounts payable, inventory, and receivables (Richards & Laughlin, 1980; Wang & Yan, 2007). Deloof (2003) and Aktas et al. (2015) highlight that higher investment in working capital can enhance sales, obtain discounts for early payments, and increase firm value. This perspective aligns with the growing body of literature suggesting that efficient WCM is linked to improved performance and sustainability.

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Recent studies further substantiate the importance of WCM. For instance, Nguyen (2020) examined Vietnamese economic groups and found that efficient WCM positively impacts operational efficiency, especially during different economic cycles. Similarly, Amram et al. (2023) investigated Malaysian SMEs and reported a significant relationship between WCM and business performance, supporting the Resource-Based View theory. Moreover, Roy et al. (2025) analyzed Indian firms during the COVID-19 pandemic and concluded that resilient firms maintained superior WCM efficiency, contributing to their operational stability.

Capital Budgeting

Capital budgeting involves evaluating and selecting long-term investments to maximize future returns (Yadav, 2015). Proper capital budgeting is essential for maintaining the financial health of an organization, as poor investment decisions can lead to significant future financial challenges (Quirin, 1967). Yadav (2015) emphasizes that effective capital budgeting techniques ensure investments are made in the most profitable opportunities, contributing to long-term financial growth.

Recent studies have highlighted the critical role of capital budgeting in influencing organizational performance. For instance, Adeel et al. (2024) investigated the effects of financial strategies, including capital budgeting, on organizational outcomes, emphasizing the mediating function of financial decision-making. Their results indicate that the integration of effective financial strategies with prudent risk management frameworks significantly strengthens organizational resilience and performance. Similarly, Ramzi et al. (2023) developed a model underscoring the significance of financial management practices, particularly capital budgeting, in improving business performance among Malaysian Small and Medium Enterprises (SMEs).

Financial Literacy

Financial literacy is fundamental for making well-informed personal financial decisions, encompassing the management of finances, credit, and debt (Xu & Zia, 2012). Research indicates that insufficient financial literacy is widespread not only in developing countries but also in developed economies, where literacy levels remain relatively low (Lusardi & Mitchell, 2014). This deficiency is particularly concerning for co-operative decision-makers, as it may hinder their capacity to effectively manage financial resources (Lusardi & Mitchell, 2022).

Research from Lusardi and Mitchell (2022) further highlights that low financial literacy is strongly correlated with poor financial planning and inadequate retirement savings. These issues are especially relevant for co-operatives, where decision-makers need to have strong financial knowledge to ensure the sustainability of the organization (Xu & Zia, 2012). Recent studies further underscore the importance of financial literacy in co-operative contexts. For instance, Wakanyi and Musau (2025) examined the effect of financial literacy on investment decisions among Matatu Savings and Credit Cooperative Societies in Kenya. Their findings indicate that financial literacy significantly influences investment decisions, highlighting the need for financial education among co-operative members.

Furthermore, González-Prida et al. (2025) examined the impact of financial knowledge on decision-making processes within small and medium-sized enterprises (SMEs). Their findings demonstrated that elevated levels of financial literacy contribute to improved financial decisions, highlighting the importance of financial education in fostering enhanced organizational performance. Additionally, Nakayiso et al. (2025) conducted a systematic

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review investigating the effects of cooperative financial literacy, training, and advisory interventions on women's financial empowerment. The review concluded that these initiatives substantially improve women's financial knowledge, skills, and confidence, thereby promoting economic stability and advancing gender equality.

Table 2 below shows that the summary of the past studies on the financial management, financial literacy and co-operative performance in Malaysia.

Table 2: Summary of Key Finding by Past Studies

Author	Summary Key Finding
Janudin et al. (2023)	Integrated financial and non-financial metrics improve managerial performance and commitment
Ghani, Shabri, & Mohamed (2024)	Internal factors like leadership and governance significantly impact co-operative performance
Andarwati, Fristin, & Qiong (2023)	Knowledge sharing and innovation strongly influence co-operative performance.
Salman & Hanif (2024)	Strong financial practices, especially budgeting and cash flow, enhance organizational success.
Khair et al. (2023)	Financial management practices explain 72% of SME growth; record-keeping is key.
Ramzi et al. (2023)	Financial practices enhance efficiency, capital availability, and margins in Malaysian SMEs.
Adeel et al. (2024)	Strategic financial decision-making and risk management improve organizational performance.
Amram et al. (2023)	Significant relationship between WCM and SME performance in Malaysia.
Wakanyi & Musau (2025)	Financial literacy significantly influences investment decisions in Kenyan co-operatives.

Conceptual Framework

This study is grounded in two key theories that explain the relationship between financial management, financial literacy and co-operative performance which is Resource-Based View (RBV) Theory and the Contingency Theory. The Resource-Based View (RBV) Theory, as proposed by Barney (1991), posits that organizations can gain and sustain a competitive advantage by effectively utilizing internal resources that are valuable, rare, inimitable, and non-substitutable. In the context of co-operatives, financial management capabilities such as working capital management, financial planning, budgeting, and capital structure decisions are considered strategic internal resources. These practices enhance operational efficiency, ensure optimal resource allocation, and support long-term sustainability. By efficiently managing their financial resources, co-operatives are better positioned to achieve improved performance and remain competitive in their respective markets. Thus, RBV supports the notion that internal financial capabilities play a critical role in determining co-operative success.

However, the Contingency Theory emphasizes that organizational performance is dependent on the alignment between internal capabilities and external or situational factors (Fiedler, 1964). From this perspective, financial literacy can be viewed as a contingency variable that moderates the relationship between financial management and co-operative performance. In situations where financial literacy is high, the effectiveness of financial management practices such as working capital control or capital budgeting can be fully realized, leading to improved

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EISSN: 2682-8545
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outcomes. However, in low-literacy settings, even sound financial strategies may fail to translate into performance gains due to misinterpretation or poor implementation. Therefore, the contingency approach justifies the hypothesis that financial literacy enhances or weakens the effectiveness of financial management depending on its level within the organization.

Financial Management and Co-operative Performance

Previous studies have identified effective financial management as a key determinant of business performance, particularly within Small and Medium Enterprises (SMEs) and co-operatives. Yohanes et al. (2018) reported that financial management practices such as planning, controlling, and budgeting exert a positive effect on the profitability of small-scale enterprises. Likewise, Mathew (2013) and Hunjra et al. (2011) highlighted that robust financial management directly enhances financial performance, especially in contexts characterized by limited resources.

One important element of financial management is working capital management, which ensures smooth daily operations by managing cash, inventories, and receivables. Studies by Laghari and Chengang (2019) and Usama (2012) confirmed that efficient working capital management positively correlates with firm performance across various sectors. For co-operatives, proper working capital practices help maintain liquidity, support procurement, and reduce operating costs.

Moreover, capital budgeting is fundamental in directing long-term investment decisions. Pearce (2019) demonstrated that the application of capital budgeting methods, including Net Present Value (NPV) and Internal Rate of Return (IRR), has a positive effect on the financial performance of financial institutions. This insight is applicable to investment decision-making within co-operatives as well.

In contrast, previous studies indicate that a significant number of shareholders in co-operative firms lack a solid understanding of financial management practices, leading to challenges in financial decision-making (Bongomin et al., 2017). Based on these findings, the following hypotheses are proposed:

- **H1**: Financial management has a positive and significant relationship with co-operative performance.
- **H1a**: Working capital management has a positive and significant relationship with co-operative performance.
- **H1b**: Capital budgeting decisions have a positive and significant relationship with co-operative performance.

Financial Literacy as a Moderator

The importance of financial literacy in improving business performance has received growing recognition in recent scholarly literature. Financial literacy is defined as the capacity to comprehend and apply a range of financial skills, including personal financial management, budgeting, and investment (Nicholas, 2014). Empirical studies by Adomako et al. (2016), Eniola and Entebang (2015), and Fernandes (2015) have established a positive and significant association between financial literacy and various business performance indicators.

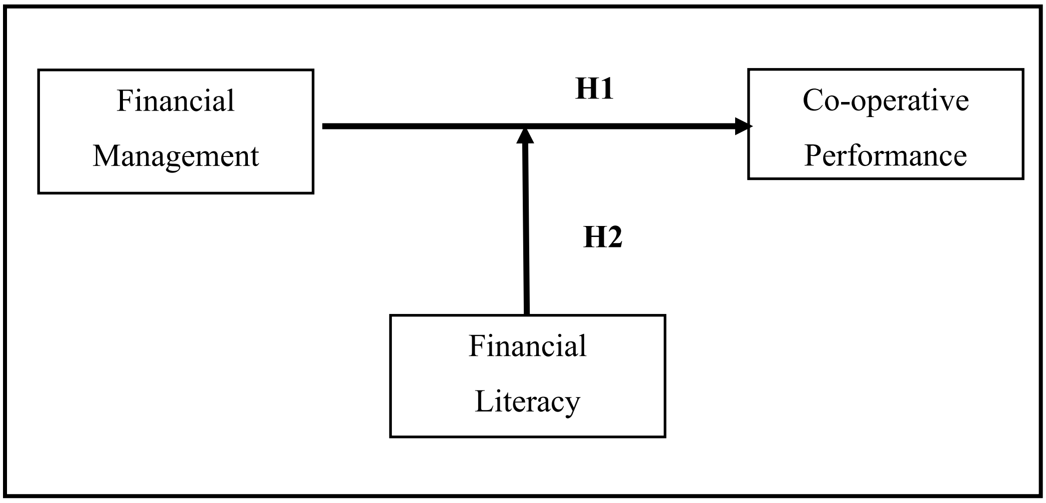
In addition to being a direct determinant, financial literacy also functions as a moderating variable. Bongomin et al. (2017) demonstrated that financial literacy moderates the relationship between access to finance and the growth of SMEs in developing economies. This moderating role is particularly significant in the co-operative sector, where members frequently lack formal financial education (Yusof et al., 2022).

However, the literature does not present a unanimous view. Eresia-Eke and Raath (2013) reported that financial literacy, in isolation, did not significantly influence performance in certain contexts, particularly where external economic factors and internal organizational practices had a more pronounced impact. Similarly, Green (2013) questioned the universal applicability of financial literacy's effects, arguing that it must be complemented by practical decision-making tools to yield meaningful outcomes.

In light of these findings, this study proposes the following hypotheses regarding the moderating role of financial literacy:

- **H2**: Financial literacy has a significant moderating effect on the relationship between financial management and co-operative performance.
- **H2a**: Financial literacy has a significant moderating effect on the relationship between working capital management and co-operative performance.
- **H2b**: Financial literacy has a significant moderating effect on the relationship between capital budgeting and co-operative performance.

From all the hypothesis above, a conceptual model can be formed as in figure 1.



Sources: Fatoki, (2017), Shusha, (2017), Bongomin et al., (2017)and Okafor, (2012),

Figure 1: Proposed Conceptual Framework

Methodology

This study employs a quantitative research approach to examine the relationships between financial management, financial literacy, and co-operative performance in Malaysia. The quantitative method is deemed appropriate for detecting patterns, testing hypotheses, and establishing statistically significant relationships among the variables under investigation. The research will be conducted nationwide, involving various categories of co-operatives registered

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EISSN: 2682-8545
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with the Malaysian Co-operative Societies Commission. A stratified random sampling technique will be utilized to ensure adequate representation from different types of co-operatives, including credit, consumer, and service co-operatives. The unit of analysis is the co-operative organization, and the primary respondents will consist of key financial decision-makers, such as the chairman, deputy chairman, secretary, and treasurer.

Based on the sample size determination table by Krejcie and Morgan (1970), for a total population of 12,625 registered co-operatives, a minimum sample of 375 respondents will be required to achieve statistical representativeness. The data collection instrument will be collected using a structured questionnaire, divided into five sections covering: Demographics, Financial Management Practices, Financial Literacy, Co-operative Performance and Organizational Background. The questionnaire will be adapted from validated instruments used in prior studies (e.g., Dahmen & Rodríguez, 2014; Fatoki, 2014; Mathew, 2013; Sagita, 2018). The instrument will be distributed via electronic mail, and follow-up reminders will be sent to enhance the response rate, following the protocol of Fox et al. (1988)**.**

For data analysis process, SPSS 25 will be used initially to conduct descriptive statistics. This will include frequency distributions, means, and standard deviations to describe the general profile of respondents and summarize the key variables. Structural Equation Modelling (SEM) will be used in this study to test the hypothesized relationships between variables, to assess the validity and reliability of constructs (confirmatory factor analysis) and also to evaluate the goodness-of-fit of the proposed model. SEM is chosen for its ability to model complex relationships between observed and latent variables, and its suitability for theory development and testing (Hair et al., 2014). The figure below shows that the flow chart illustrating the sequence of research methodology in this study.

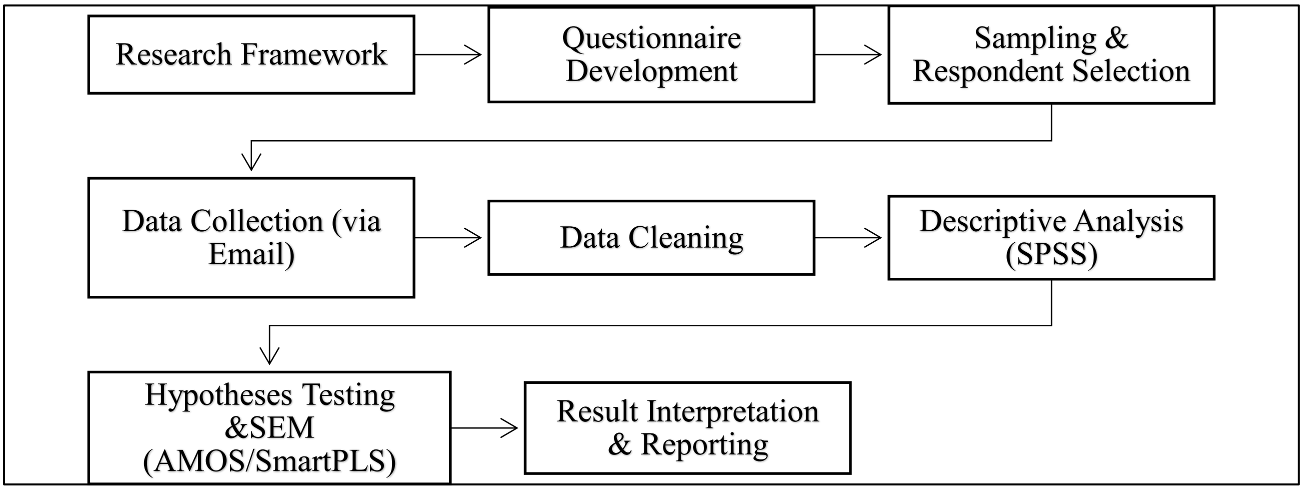

Figure 2: Flow of Research Process

Conclusion

Financial management, particularly when coupled with financial literacy as a moderating variable, has been identified as a critical tool for enhancing co-operative performance. Effective financial management practices contribute significantly to the overall performance of co-operatives, improving their financial stability, profitability, and long-term sustainability. Given the increasing recognition of the co-operative sector's role in the national economy, it is essential to develop and implement strategies that strengthen financial management capabilities within these organizations.

In this regard, co-operatives must reassess and improve their financial management practices to remain competitive and relevant in a dynamic economic environment. Specific actions should include revamping internal financial practices and fostering a culture of continuous learning among members. One potential strategy involves strengthening collaborations between co-operatives and relevant agencies, such as governmental bodies and non-governmental organizations (NGOs), to enhance the financial literacy and managerial capacities of co-operative members. Since co-operative shareholders stand to benefit the most from these improvements, they are strongly encouraged to prioritize acquiring the necessary financial management skills.

Past studies have consistently emphasized the significant role of financial management in influencing co-operative performance. Future research could benefit from an empirical approach that further explores the relationships between financial management practices and co-operative performance, using actual data to substantiate these connections. Additionally, future studies should consider incorporating other variables that may affect organizational performance, such as co-operative size, age, and industry type.

Based on the discussion and framework proposed, it is anticipated that the objectives of this study will be achieved, particularly in understanding the direct relationship between financial management and co-operative performance, and the moderating role of financial literacy. This study is expected to contribute theoretically by enriching the existing literature on financial practices in co-operatives, particularly within the Malaysian context. Practically, the study offers actionable insights for policymakers, co-operative leaders, and training institutions to improve financial literacy and strengthen governance. Ultimately, these contributions will support co-operatives in becoming more resilient, efficient, and capable of generating sustained value for their members and communities.

In conclusion, enhancing both financial literacy and financial management practices is essential for building stronger, more resilient co-operatives. A financially informed and strategically equipped membership base will ensure co-operatives remain viable and impactful contributors to national economic development in the long term.

Acknowledgements
This paper is self-funded since this article is not funded by any grant.

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