The Role of Good Governance on Sustainability: A Case of Small Medium Entrepreneurs in Malaysian Rural Transformation Centre

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ABSTRACT

Background: Sustainability studies have attracted great concern among scholars and practitioners. Various factors have been linked to sustainability including good governance. Objective: To examine the relationship of good governance and its influence on sustainability. Results and Conclusion: The study found that good governance components were related to sustainability. These components also had significantly contributed sustainability. It was found that leadership emerged as the most important aspect of good governance that contributed sustainability.

INTRODUCTION

Sustainability studies have attracted a great concern among scholars and practitioners. Many studies based on sustainability focus on the measurement of sustainability and it outcomes such as performance of its stakeholders, business organization and project development (Samad and Yusuf, 2014). Sustainability has also been addressed to community especially rural people which constitutes of farmers, villagers, small and medium entrepreneurs and public at large. Rural community has been an attention of governments in developing countries. This is because rural areas are always been associated with poor standard of living and poverty that need a well strategic planning (Samad et al., 2014). Little research has been done on this area and the factors that can be linked to sustainability of the rural community particularly in Malaysia. Further based on previous studies there are several factors that are related to sustainability of organization or business firms such organization structure, human capital (Samad, 2013), management, leadership (Samad, 2012), policy, financial and intervention (Thomas and Thomas, 2014), culture (Samad et al., 2013) and governance (Williams, 2010). It is not surprising that the broad consensus among growth economists, development experts and international policy-makers has begun to view good governance as a pre-requisite to sustained increases in living standards (Kaufmann et al., 2000) (Knack and Keefer, 2003) especially with regards to strategic planning of rural community and small medium entrepreneurs (Samad et al., 2015).

Rural development has always been a main agenda of most developing countries. This is without exception in Malaysia in which this issue has been the main focus of attention since its independence from British in 1957. Improving the well being of rural people has also been the continuous initiatives of Malaysian Government with many programmes being introduced involving development activities in agriculture sector, rural industrialisation, resettlement schemes, provision of public facilities and infrastructure to human and community development. Rural strategies and development programs are aimed at helping rural people with problems that surrounding them such as poverty, low productivity, low standard of living, lack of infrastructure, low income and the disparity that exist between rural and urban area since independence (Abdullah, 1992). Various initiatives have been taken by Malaysian government for the development of rural community. This includes the establishment of agricultural related agencies and the launch of National Agro-Food Policy 2011-2020 in 2012. The main objective is to ensure sufficient food supply, increasing the value-add of the agro-food sector, complementing and strengthening the supply chain and providing a knowledgeable and trained labour force (http://www.globinmed.com/index.php). Efforts are also ongoing to further modernise the
agriculture sector. In this respect, the scope under the government Commercial Agriculture Fund was extended to include innovation in agriculture projects.

The initiated programs and strategies indicated that Malaysian Government is very committed in its efforts to improve the agriculture sectors and rural community standard of living. The process of change or transformation of rural community certainly is very significant. These efforts according to Butler et al., (1998) will help to achieve certain goals and solve problems of the rural communities. Realizing the significant roles of government in achieving rural standard of living and quality of life, Rural Transformation Centre (RTC) was initiated in 2011. The Rural Transformation Centre (RTC) is an integrated transformation programme under the 4th National Blue Ocean Strategy (http://www.pemandu.gov.my) which involved various ministries such as Ministry of Agriculture (MOA), Ministry of Higher Education (MOHE), Ministry of Health (MOH) and Ministry of Finance (MOF). RTC is an initiative and mechanism to optimise the potential of rural areas and streamline development activities for the benefit of the people. The objective was to expand economic activities that were previously concentrated in urban areas such as the Klang Valley, Penang and Johor further into rural areas (http://www.newsarawaktribune.com). Among the established RTCs were in Perak, Kelantan, Melaka, Pahang, Johor and Kedah.

RTC was also aimed to serve as centres of logistics integration, processing and distribution of agricultural products, and were equipped with facilities such as banking and insurance, training centres, clinics and retail space. RTC is a one stop centre and the programme was implemented through eight initiatives mainly: skills training for rural people, setting up of information kiosks, encouraging value-added agriculture, processing of agro-food, managing the agricultural supply chain, providing financing facilities, food safety and pharmaceutical services, and cooperation of higher education institutions (http://www.pemandu.gov.my). This indicates that Malaysian Government is very committed to develop rural areas through all the initiated programmes and initiatives and the roles that RTCs should play. This implies that RTCs play key roles in ensuring the success and failure of all the above programmes. Therefore in implementing RTC, a lot of considerations need to be taken which include aspects such as the efficiency, accessibility of the centres, the provision of infrastructure and good governance.

The preceding programs, initiatives and plans imply that the main aim is to eradicate poverty among community in rural areas. This is supported by Aziz (2013) which highlighted that one of the main features of having the RTC is because of the poverty level in Malaysia. Poverty (socioeconomic background) is one of the most important features that measures rural standard of living and to sustainability (OECD, 1997). This study attempted to examine the extent good governance is related and influence the sustainability of RTC’s participants specifically among small medium entrepreneurs.

Literature Review:

Good Governance:

Research on good governance has been widely highlighted by scholars. This is due to its impact on organizational outcomes such as in gaining competitive advantage, performance and sustainability. Various definitions and models are given on good performance. Good governance according Willums (2010) constitutes rules and practices that govern the relationship between the managers and shareholders of corporations as well as stakeholders like employees, pensioners and local communities to ensure transparency, fairness and accountability. United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) refers governance as the process of decision-making and the process by which decisions are implemented (or not implemented). Accordingly it can be used in several contexts such as corporate governance, international governance, national governance and local governance (http://www.unescap.org/governance). UNESCAP suggested good governance with eight important characteristic mainly participatory, consensus oriented, accountable, transparent, responsive, effective and efficient, equitable and inclusive and follows the rule of law. This notion emphasizes the importance of corruption to be reduced, the minority groups are taken care and the voices of society are heard in decision making beside always to be responsive and proactive to the society needs.

Grindle and Thomas (1991) suggested governance which includes institutions, systems, rules of the game and other factors that determine how political and economic interactions are structured and how decisions are made and resources are allocated. Therefore Grindle and Thomas (1991) equated good governance as a positive feature of political systems and that bad governance is a problem that countries need to overcome. Good governance has been attributed as list of admirable characteristics of how government ought to be carried (Grindle and Thomas, 1991). World Bank proposed good governance with accountability and transparency, efficiency in how the public sector works, rule of law, and ordered interactions in politics (World Bank 2007). UNDP (1997) characterizes the most important aspects of good governance in terms of participation, transparency, accountability, effectiveness, and equity. According to Grindle and Thomas (1991) good governance sometimes is referred to normative which concerns about what government should do to reduce poverty.
for example or maintain macroeconomic stability or provide basic services to the community. Manning, et al. (2006) suggested a single indicator to evaluate the inputs (expenditures in labour, goods and services, or capital) and the outputs produced by the public or private sectors and the aggregated indicator to describe good governance. Meanwhile Rotberg (2005) refers good governance as the allocation and management of resources to respond to collective problems. This also implies that if the governance is not good it entails corruption, lack of transparency and accountability, an avenue for providing opportunities to well-connected elites and interest groups in the society to corner for themselves certain proportion of state resources at the detriment of the masses (Obadan, 1998).

It can be concluded that good governance is related to the ability for example individual and institutions undertaking and maintaining the set of administrative conduct which include rule of law, transparency, responsiveness, participation, equity, effectiveness and efficiency, accountability, transparency, integrity and strategic vision within the political, economic, and administrative authority. This indicates topic on governance is widely addressed concept by scholars and practitioners. It is a concept that encompasses a wider spectrum and across disciplines of knowledge. This is because it is a very broad concept, and operates at every level, such as household, village, municipality, nation, region or globe (Nzongola-Ntalaja 2002). Based on the preceding discussions this research measured good governance in terms of efficiency, responsiveness, leadership, participation and entrepreneurship of RTC to provide assistance of small medium entrepreneurs (SMEs) to improve their performance in terms entrepreneurship and standard of living.

Sustainability:

For the last decade it has been a vast growth of research interest in sustainability. The term of sustainability has become pervasive both within the discourse of globalisation and addressing of corporate performance as well as organization or firm performance. The concept of sustainability can be traced back to the thirteenth century but in more recent times it appeared in the environmental literature in the 1970s (Kamara et al., 2006), and since then it seems to have become a desired goal in most areas of human activity and endeavour. Sustainability has become a controversial issue and there are many definitions given on this term. At the broadest definitions sustainability is concerned with the effect which action taken in the present has upon the options available in the future (Crowther, 2002). Thus, future lies in building sustainable enterprises and an economic reality that connects industry, society, and the environment (Senge and Carstedt, 2001). According to Elkington (1997), the firm’s ultimate objective is not singular (create value for its shareholders) but rather three-fold (create economic, ecological, and social value). In addition, the central value of the sustainable firm is not economic growth but rather sustainable development (Rodriguez et al., 2002). From the perspective of sustainable development, sustainable and good governance has been linked to institutions that are able to acknowledge the need to reform societal organizations in order to maximize opportunities for sustainable development (Rodriguez et al 2002). In this contact it refers to RTC (Rural Transformation Centres) with the role as societal agent to transform the society through activities or programmes played by the selected or appointed agencies by government.

Sustainability has been addressed and operationalised differently by different background of scholars. Wheen et al. (2015) suggested that previously scholars have used and addressed term of sustainability to describe competitive advantage and not environment. Currently this term used to describe a business’s sustainability in terms of the triple bottom line which proposes that companies or organizations prepare three different bottom lines in their annual report: 1) Traditional profit or loss, 2) People account- the social responsibility of the organization and 3) Planet account - the environment responsibility of the organization (Ranft and O’Neill, 2001). This implies that sustainability includes much more than just ecological concerns and the natural environment. Therefore Crane and Matten (2007) stressed that this concept should be broadened to include economic and social as well as environmental concerns. This is because according to them it is sometimes not possible to address sustainability of the natural environment without considering the social and economic aspects relevant to communities and their activities. The broader concept of sustainability is also related to business responsibilities (Wheen et al., 2015). Accordingly in order for a business organizations to be sustainable that is to be successful in a longer period it must satisfy all of its economic, legal, ethical and discretionary responsibilities.

Various measures of sustainability are postulated by scholars. However, most scholars have given emphasis on three classified components of sustainability mainly economic, social and ecological (Van Cauwenbergh et al., 2007). Economic sustainability includes aspects such as economic efficiency (Nijkamp and Vreeker, 2000); Profitability and Monetary income (Gafsi et al.,2006). Meanwhile social sustainability encompasses aspects such as improved decision making (Rasul and Thapa, 2003); improved the quality of rural life (Norman et al.,1997); working and living conditions (Van Cauwenbergh et al.,2007); participation or social capital (Van Cauwenbergh et al., 2007) and social equity (Rasul and Thapa, 2004). This study refers sustainability in terms of economic and social aspects.
to describe sustainability among SMEs entrepreneurs who are the participants of the RTCs.

**Good Governance and Sustainability:**

Previous studies have highlighted various factors that are related to sustainability. McConville (2006) suggested that sustainability is based on social pillars of socio-cultural respect, community participation, and political cohesion. Accordingly to achieve these goals several factors should be considered such as design and action planning; implementation operation and maintenance. These factors according to Williams (2010) however would not be realised without having good governance. Thomas and Thomas (2014) stated that governance in terms of leadership, management, financial and policies aspects are the pre requisites for achieving sustainability of organization and government programs. Hope (2002) highlighted that poor governance such as lack of accountability, political authoritarianism, state failure, and corruption to embrace and consolidate democracy as well as effect sound and transparent economic management tend to be positive multiplier of effects on Africa’s development performance and sustainable development (Hope, 2002). Griffin (2008) found that many of the environmental issues that related to sustainability are associated to perceived governance failings that include aspects such as political inefficiencies, poor policy implementation, democratic and accountability deficiencies. According to the European Commission, good governance consists of openness and participation, accountability, effective coherence, efficiency (proportionality) and greater sensitivity to the immediate context that is promised by subsidiarity. For sustainability, other requirements include means of internalizing external costs and ensuring integration of policy considerations, evaluation of options and dealing with trade-offs.

Deriving from the above literature this paper examined the relationship between good governance and sustainability. It is well accepted by scholars that it is not only good governance that influence sustainability but also the solutions that results from the conduct of governance by the institutions. However although good governance should theoretically enhanced sustainability to date there have been few critical studies that have tested the relationship between good governance and sustainability specifically in Malaysia. Further several governance and sustainability scholars have argued that governance work is short on studies that relate to its outcome on sustainability (Jordon, 2008). Moreover literature on governance and sustainability has only recently received concerted attention from academics (Griffin, 2008), (Russel and Jordan, 2009). Hence the present paper seeks to augment this nascent body of work by providing a fascinating exploration of some of the most important themes in governance and sustainability studies.

**Purpose and Hypotheses of Study:**

The main purpose of this study was to empirically examine the relationship between good governance and sustainability. Consequently the study examined the contribution of good governance on sustainability. It also determined the most important good governance aspect that influences sustainability. Therefore the following hypotheses are proposed in this study:

H1: There is a positive and significant relationship between good governance (efficiency, responsiveness, leadership, participation and entrepreneurship) and sustainability,

H2: There is a significant contribution of good governance (efficiency, responsiveness, leadership, participation and entrepreneurship) on sustainability and

H3: Leadership is the most important aspect of good governance that influences sustainability

**Methodology:**

**Sample Procedure and Measurement:**

Participants in the study were small medium entrepreneurs who are participants of Malaysian Rural Transformation Centre. 300 self-administered questionnaires were distributed to the respondents based on convenience sampling. 150 useable questionnaires were used in the statistical analysis representing a response rate of 50% from the sample. The independent variable of the study is good governance. Good governance in this study refers to how efficient and responsive as well concerned the government through RTC to the society needs and to reduce poverty as suggested by UNESCAP and Grindle and Thomas (1991). The construct was measured based on five main components mainly efficiency, responsiveness, leadership, participation and entrepreneurship which consist of 25 items developed by the researcher and adapted from previous researchers (Nieto and Quevedo, 2005); (Sarkar et al., 2001); (Dahl, 1997); (Pickel, 2000). All items were measured with seven-point Likert-type scales ranging from 1 (strongly disagree) to 7 (strongly agree). The reliability coefficient for all components of good governance is depicted in Table 1. Sustainability was the dependent variable of this study. Sustainability consists of nine items and was measured based on four aspects of financial, competency, competitive advantage and innovation and creativity. The questionnaire was developed by the author and adapted from Chan (2005); Ramo and Saris (2009); Kaleka (2002) and Tohidi and Jabbari (2012). The response options for these items were based on a 7 point Likert-scale ranging from 1= strongly disagree to 7= strongly agree. The reliability coefficient for overall sustainability components was .93.
RESULT AND DISCUSSION

Demographic Profiles:
The results from the study revealed that 90% of the respondents are male and 10% female. Whilst nearly 49% of the respondents are those within the range of more than 40 to 50 years and nearly 39% are those who have embarked in entrepreneurship at least for three years and more than half (61%) for more than 3 years.

The Relationship between Good Governance and Sustainability (H1):
Table 1 indicates the mean, standard deviation and the reliability coefficients of the variables which concur with Nunnaally’s (1978) minimum acceptable level of 0.70.

Table 1: Number of Items, Mean, Standard Deviation and Cronbach’s Alpha Values.

<table>
<thead>
<tr>
<th>Variables</th>
<th>Number of Items</th>
<th>Mean</th>
<th>S.D</th>
<th>α</th>
</tr>
</thead>
<tbody>
<tr>
<td>Efficiency</td>
<td>5</td>
<td>4.70</td>
<td>1.31</td>
<td>0.87</td>
</tr>
<tr>
<td>Responsiveness</td>
<td>5</td>
<td>5.10</td>
<td>1.33</td>
<td>0.82</td>
</tr>
<tr>
<td>Leadership</td>
<td>5</td>
<td>5.11</td>
<td>1.10</td>
<td>0.95</td>
</tr>
<tr>
<td>Participation</td>
<td>5</td>
<td>5.30</td>
<td>0.98</td>
<td>0.87</td>
</tr>
<tr>
<td>Entrepreneurship</td>
<td>5</td>
<td>5.25</td>
<td>1.19</td>
<td>0.81</td>
</tr>
<tr>
<td>Sustainability</td>
<td>9</td>
<td>5.11</td>
<td>1.12</td>
<td>0.93</td>
</tr>
</tbody>
</table>

Meanwhile Table 2 presents the correlation analysis of the study variables. As shown in Table 2, all of the independent variables are positively correlated with sustainability. This correlation analysis also revealed that all dimensions of good governance (efficiency, responsiveness, leadership, participation and entrepreneurship) are correlated to each other and are positively related with sustainability. Thus all of the hypotheses H1 were accepted. The study concludes that all of the good governance components significantly enhanced the sustainability of SMEs’ entrepreneurs in RTC. Examining the relationship of each variable, the analysis reveals that the strength of the relationship ranges from low to moderate, positive and significant relationship. As can be seen in Table 2, there is no issue of collinearity problem in this data as the correlations between the independent variables are not high. This implies that a multiple regression analysis can be carried out to answer the following hypotheses H2 and H3 of the study.

Table 2: Correlation Coefficients of the Main Variables.

<table>
<thead>
<tr>
<th>Num</th>
<th>Variables</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Efficiency</td>
<td>.92</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Responsiveness</td>
<td>.24*</td>
<td>.89</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Leadership</td>
<td>.42*</td>
<td>.43*</td>
<td>.94</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Participation</td>
<td>.48*</td>
<td>.22*</td>
<td>.55*</td>
<td>.88</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Entrepreneurship</td>
<td>.53*</td>
<td>.45*</td>
<td>.25*</td>
<td>.37*</td>
<td>.85</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Sustainability</td>
<td>.48*</td>
<td>.52*</td>
<td>.60*</td>
<td>.48*</td>
<td>.37*</td>
<td>.93</td>
</tr>
</tbody>
</table>

*p = 0.05 (Alpha reliability values are shown on the diagonal)

The Contribution of Good Governance on Sustainability (H2):
Table 3 presents the results of regression analysis to answer the hypotheses H2 and H3 of the study. In order to answer the hypothesis 2, all of the good governance components were regressed with sustainability. As can be seen on Table 3, the R² value was .35 indicating that 35 percent of variance in sustainability was explained by five components of good governance. Examining each of the good governance components as shown in Table 3, all of the components had a positive and significant effect on sustainability. Thus the result provided full support for hypothesis HA2.

Table 3: Contribution of Good Governance on Sustainability.

<table>
<thead>
<tr>
<th>Dimensions</th>
<th>Sustainability</th>
<th>Std β</th>
<th>t</th>
<th>R²</th>
<th>F</th>
<th>P</th>
</tr>
</thead>
<tbody>
<tr>
<td>Responsiveness</td>
<td>.35</td>
<td>2.55</td>
<td>0.35</td>
<td>102.82</td>
<td>.000**</td>
<td></td>
</tr>
<tr>
<td>Leadership</td>
<td>.50</td>
<td>3.04</td>
<td></td>
<td></td>
<td></td>
<td>.000**</td>
</tr>
<tr>
<td>Participation</td>
<td>.27</td>
<td>1.23</td>
<td></td>
<td></td>
<td></td>
<td>.000**</td>
</tr>
<tr>
<td>Efficiency</td>
<td>.23</td>
<td>1.49</td>
<td></td>
<td></td>
<td></td>
<td>.000**</td>
</tr>
<tr>
<td>Entrepreneurship</td>
<td>.23</td>
<td>1.40</td>
<td></td>
<td></td>
<td></td>
<td>.000**</td>
</tr>
</tbody>
</table>

*p = 0.05

The Most Good Governance important aspect to influence on Sustainability (H3):
As can be seen in Table 3 among the five components of good governance leadership (β=.50) emerged as the most important aspect of good governance that contributed significantly to sustainability. This suggests that leadership is the most important aspect of good governance that
contributed significantly to the sustainability. Thus H3 of the study is accepted.

Conclusion, Implication And Suggestion:

The purpose of this study was to determine the relationship between good governance and sustainability. Further it examined the contribution of good governance aspects (efficiency, responsiveness, leadership, participation and entrepreneurship) on sustainability. The study also examined the most important aspect of good governance that contributed sustainability. From the results it was found that the correlation matrix indicated that all of the good governance aspects were positively related to sustainability. Meanwhile the multiple regression analysis revealed that all of the good governance had a positive and significant contribution on sustainability. This implies that all of the good governance had important role in enhancing the sustainability of Malaysian RTC as perceived by the small medium entrepreneurs. These results tend to suggest that the application of some components of good governance in combination can lead to achieve sustainability particularly among RTC’s small medium entrepreneurs in Malaysian. This result is consistent with previous studies done by Willums (2010), Hope (2002), Thomas and Thomas (2014). This study suggests that all of the good governance aspects need to be recognized as a potential factor for sustainability of Malaysian RTC as perceived by their participants mainly SMEs entrepreneurs in Malaysia. These companies certainly demand good leaders or champions who are able to contribute towards sustainability of small entrepreneurs who have access with RTCs

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