

## **POSITIONING KNOWLEDGE MANAGEMENT AS KEY SUCCESS FACTOR IN THE GROWTH OF COOPERATIVES IN MALAYSIA**

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### **ABSTRACT**

*Economic and business challenges in the new millennium have shaped the manner cooperative movement in Malaysia charts its future outlook. After almost 82 years, a national policy was launched by the Government on January 2004 to assist in the comprehensive development of the cooperative movement. The National Cooperative Policy (NCP) will ensure that the huge resources of the cooperatives can be harnessed to generate and contribute to the economic growth of the country. However, in the light of many issues such as weak structure and the absence of good corporate governance in some cooperatives, the present Cooperative Act 1993 is being reviewed and several new provisions would be added to increase supervision, monitoring and enforcement against existing cooperatives in Malaysia. It is quite imperative that by regulating the operation of cooperatives will require also the managing of intellectual and human capital assets that exist in the movement. Through establishing a framework and terms of reference such that fundamental elements of knowledge management can be instilled are prerequisites to developing innovativeness in this growing economic sector. The sharing of knowledge among the cooperatives will eventually produce better and more educated human resources that are able to experience greater control over the works and the administration of their quality working life. Structural analysis of the cooperative movement indicates the significant influence of knowledge management in sustaining its future growth given the timely introduction of the NCP. Thus, measures taken to underline this influence will also be addressed to represent the cooperative movement's readiness to face economic and business challenges in Malaysia.*

**Keywords:** knowledge management, cooperative movement, National Cooperative Policy (NCP), positioning

### **INTRODUCTION, PROBLEM STATEMENT AND OBJECTIVE**

After more than eight decades, the cooperative movement in Malaysia seemed to be given a new lease of life when the Government decided to launch the National Cooperative Policy (NCP) in January 2004. For many years, issues such as the lack of capital, conventional activities, weak structure and the absence of good corporate governance in some cooperatives typically characterized the

cooperative movement in Malaysia. Subsequently, these problems have resulted in poor financial performance, cash flow and mismanagement and non-compliance with the Cooperative Societies Act 1993 and its related legislation in this sector. A comprehensive development or growth of the cooperative movement is therefore vital to ensure this sector becomes the third major catalyst for economic growth in Malaysia. One of the main strategies to achieve the objective of NCP is emphasizing the need for more professional help in the management of cooperatives. The setting up of a new commission to tighten their operations would enable the statutory body to play a significant role in developing the human resources of this sector. Greater emphasis on education and training especially on information and communication technology not only dictates the importance of information and knowledge to be shared between and among the cooperatives, but knowledge management will also allow the existence of a workplace atmosphere that is quite receptive to the nourishment of innovation and ideas.

The process to capture, collect and disseminate information enabled the management of cooperatives to carefully plan work programs that will make maximum use of the employees' expertise and experience. The cooperatives' intellectual capitals are resources that are not only informed but could exert their influence and decisions that may affect the operations of this sector. Knowledge workers are in a position to formulate some innovativeness in their job through understanding the applications of work procedures or processes as a mean to fulfill the needs of members of the cooperatives. Thus, knowledge management is quite essential to develop knowledge-based resources of this sector such that it produces the dynamism to lead the cooperative movement to greater heights in Malaysia. The growth of cooperatives amidst challenging environments can be sustained given the significance of knowledge management to instill new work culture in this growing sector.

Having said the above, the paper intends to achieve the following objectives:

- An overview of knowledge management and its perspectives in organization.
- The challenge of cooperative movement in Malaysia.
- Positioning knowledge management as key success factor in cooperatives development.
- Knowledge management and its implications on future performance of Malaysian cooperatives.

## **AN OVERVIEW OF KNOWLEDGE MANAGEMENT AND ITS PERSPECTIVE IN ORGANIZATION**

A number of definitions and descriptions by various authors on knowledge management are listed below to arrive at several aspects of its meaning as practiced in the organization.

"A formal process that evaluates a company's people, organizational processes and technology and develops a solution to capture knowledge and deliver information to the right people at the right time."

(Sanchez, 2002)

"The process of capturing or creating knowledge, storing and protecting it, updating it constantly and using it whenever necessary."

(Turban, Rainer, & Potter, 2000)

"The process to create an inclusive, comprehensive and easily accessible organizational memory which is often called the organization's intellectual capital."

(Knapp, 1998)

"A comprehensive corporate wide system that collects knowledge, stores it in a database, maintains the database and disseminates the knowledge to users in the organization."

(Wilmott, 1998)

"The degree to which knowledge is an integral part of a company is defined not by what the company sells but by what it does and how it is organized."

(Zack, 2003)

"In general, the firm should manage knowledge in ways that will support its efforts to create value for customers."

(Hansen, Nhoria, & Tierney, 1999)

"Continuous learning provides the firm with new and up-to-date sets of skills, which allow the firm to adapt to its environments as it encounters changes."

(Pascale, 1999)

"The most vital resource of today's enterprise is the collective knowledge residing in the minds of an organization's employees, customers, and vendors."

(Becerra-Fernandez, Gonzalez, & Sabherwal, 2004)

"Effective organizations create knowledge which is broader, deeper and richer than data and information."

(Davenport & Prusak, 1998)

"Turning workers' knowledge into a dynamic, reusable resource provides a level of customer satisfaction that is unsurpassable in today's competitive e-business world."

(Lewis, Goodman, & Fandt., 2001)

"Knowledge workers don't believe they are paid to work 9 to 5; they believe they're paid to be effective."

(Drucker, 2000)

In general, knowledge management consists of three major aspects: people, processes and technology. People determine the sharing and use of knowledge and the methods or processes on the other hand, are concerned with creating, capturing and classifying knowledge while technology allows knowledge to be stored and making them accessible whenever they are necessary.

Prescott (1997) noted that managers nowadays are faced with an energized information era that is diffusing more rapidly than any other previous technology. Thus, they must take the challenge to utilize this technology more effectively. Similarly, Ryan (2000) underlined several advantages of knowledge management that include:

- Improving customer service experience through making accessibility to in-depth knowledge and solving customer problems instantly.
- Preventing recurring cost as existing knowledge can be reused in formulating similar solution to other problems.
- Improving productivity of employees as problems resolutions can be made faster and in less time.
- Handling problems that cross a broad range of topics and job functions.

Wilmott (1998) on the other hand, indicated that knowledge is being identified as a key asset in the organization because changes in the methods and forms of organization are transforming also the way in which knowledge is produced, shared and valued. Likewise, Turban et al. (2002) asserted that knowledge

management has led business organizations to depend greatly on maximizing resources, eliminating redundancy and automating their processes in order to meet goals of the organization. In fact, Sanchez (2002) emphasized the significant factor of knowledge management in its relationship to organizational competence because the act of managing information has now become the most important economic tasks of individual business and nation. On a similar note, Davis and Botkin (1994) also discussed the emergence of knowledge-based business and K-economy that characterized the ability of countries to control and manipulate information.

According to Zack (1999), leading management and organization theorists have popularized the concept of treating organizational knowledge as a valuable strategic asset. As more firms begin to incorporate knowledge management into their overall business strategy, many are showing tremendous interest in implementing knowledge processes and technologies. In this respect, Drucker (2000) considered knowledge workers as people who knew their strength, and insisted that they be placed where they can make the greatest contribution and would also expect organizations to treat them as associates as well as giving them challenges in their works and the environment. As such, Knapp (1998) argued that if relevant information is intelligently and quickly communicated to the right persons, it can make the difference between making great decisions and making bad ones. It is necessary to organize this so called intellectual capital in a formally structured way for easy access and use by the organization and its resources.

## **THE CHALLENGE OF COOPERATIVE MOVEMENT IN MALAYSIA**

The first cooperative registered in Malaysia was the Postal and Telecommunication's Cooperative Thrift and Loan Society Limited on July 21, 1922 while in the rural area, Syarikat Kampong Telok Haji Musa Bekerjasama-sama Dengan Tanggongan Berhad, Parit Buntar, Krian Perak commenced its operation on December 3, 1923. The cooperatives movement made their presence in Sarawak and Sabah in 1949 and 1959, respectively. Since their introduction in 1922, cooperatives have always been recognized as a vehicle for elevating the standard of living of the poor and low-income earners by their ability to mobilize resources among the people within the urban and rural sectors of the population (Cooperatives Development Department, 2004a). The cooperatives initially started with activity in credit or rice milling and began to diversify into all kinds of business activities such as consumer, housing, transport, land development and construction. The activities and types of cooperatives in Malaysia can be categorized as follows:

1. Finance and Banking

The cooperatives provide loans to members who are mostly fixed income employees particularly in the public, statutory and private sector. The development of cooperative movement in the 1920's was dominated by these cooperatives.

2. Housing

The projects concentrate on low and medium costs houses with members getting 20 to 30% lower prices than that prevailing in the market.

3. Consumer

They are formed to assist members obtain quality goods at reasonable prices through bulk purchasing from the mini markets, supermarkets and provision stores operated by the cooperatives.

4. Transport

The groups provide transportation service to the members especially in land development schemes such as FELDA, RISDA and FELCRA by carrying out activities such as transporting agricultural products to the processing plants. They also operate retail stores, mini markets, petrol kiosks and motor workshops.

5. Industries

They are generally small and medium scale industries and are carried out mostly through the Small Industry Cooperative (Koperasi Industri Kecil). The cooperatives normally produce, market and promote handicrafts such as pottery and silverware.

6. Plantation

The cooperatives are registered to manage and develop their agricultural land and the crops including coconut, rubber, oil palm, pineapple and cocoa.

7. Construction

The cooperatives carry out minor infrastructure works such as building small bridges, roads and general maintenance in their respective districts. They are formed to encourage members to participate actively in government projects in their areas.

## 8. Services

They provide services to members by managing funds, maintaining of housing estates, renting of buildings or stalls owned by members as well as operating day care centers, computer classes and collection centers for settling utility bills.

Table 1 indicates the growth of cooperatives in Malaysia from 1990 to 2003 in terms of number of cooperatives and the total assets representing the huge potentials of this sector to the Malaysian economy.

Table 1  
*Cooperatives Growth in Malaysia (1990–2004)*

Year	No. of cooperative	No. of member (Million)	Share/subscription (RM billion)	Total asset (RM billion)
1990	3,023	3.33	1.64	6.15
1991	3,083	3.44	1.75	6.55
1992	3,228	3.66	1.92	7.60
1993	3,388	3.91	2.18	8.33
1994	3,473	4.06	2.44	10.14
1995	3,554	4.25	2.74	10.39
1996	3,753	4.21	2.83	12.17
1997	3,847	4.13	3.17	12.96
1998	3,942	4.55	3.60	14.10
1999	4,050	4.33	3.84	14.10
2000	4,154	4.50	4.21	15.82
2001	4,246	4.76	4.30	18.90
2002	4,330	5.03	4.40	19.00
2003	4,469	5.21	5.57	25.12
2004	4,651	5.39	6.64	25.97

Source: Monitoring Division, Cooperative Development Department (2004b)

The statistics of the cooperative movement indicates a growing and steady influence of this sector in Malaysia. As of December 31, 2004, there were 4,651 registered cooperatives with 5.391 million members; their shares/subscriptions amounted to RM6.664 billion whilst the total assets stood at RM25.977 billion. In addition, Table 2 provides the half-yearly financial performance of the cooperatives according to their activities.

Table 2  
*Performance of the Cooperatives – According to Function (as of June 30, 2004)*

Function	No. of cooperative	Individual member	Share/subscription (RM)	Total asset (RM)
Banking	3	709,991	1,697,713,741	16,712,598,892
Financial	446	1,172,643	3,093,642,294	5,149,346,187
Estate	241	215,961	176,165,718	968,996,253
Housing	90	95,450	158,275,712	500,436,798
Industrial	42	9,310	1,960,583	52,312,739
Consumer: Adult	1,112	572,971	164,456,775	646,931,762
Consumer: School	1,665	1,734,108	16,641,369	110,030,167
Construction	112	97,104	14,403,208	65,914,701
Transportation	437	154,745	58,574,132	170,465,143
Services	405	629,503	682,536,970	1,319,626,286
Total	4,553	5,391,786	6,064,370,502	25,696,658,928

Source: Monitoring Division, Cooperative Development Department (2004b)

Activities of the cooperatives in the banking, financial and service segments of the population reflect the acceptance of these cooperatives among the employees of the public, statutory and private sectors in Malaysia. It is interesting to note from the table that the high number of cooperative movement in the schools would have indicated a long term prospect of inculcating principles of cooperatives among the younger population of this country.

Amidst the above glowing figures of the cooperatives in Malaysia, much have to be said about conditions that prevail in this sector. Though the movement has been in existence over eight decades, there is also no common policy that can assist in the comprehensive development or growth of the cooperatives. Several challenges such as the lack of understanding and participation by their members; poor or haphazard management among some cooperatives; lack of capital and access to external sources; and the lack of cooperation between cooperatives in the field of business, training, education and facilitating services are contributing to the inefficient performance of the cooperatives in Malaysia (*Sabah Times*, March 24, 2003). Thus, in the light of a weak structure and the absence of good corporate governance in some cooperatives, the present Cooperative Act 1993 is being reviewed and several provisions will be added to increase supervision, monitoring and enforcement against existing cooperatives (BERNAMA, February 28, 2004).

The launching of the NCP in January 2004 signals a bold move by the Government to chart the future outlook of the cooperative movement in Malaysia. The NCP, drafted in 1997 and approved by the Cabinet in July 2002 outlined eight main strategies, namely:

1. To ensure that cooperative principles and philosophy are understood and practiced in the movement.
2. To formulate clear rules and regulations to assist in the promotion and development of the cooperative sector.
3. To recognize the cooperative movement as a prime motivator and contributor in the economic development of the nation.
4. To strengthen and maintain good cooperative governance, efficient administration and financial management and effective supervision of cooperatives.
5. To increase sources of capital to enable cooperatives to face challenges and competition.
6. To continuously improve the quality of products and services to ensure members receive the best products and services offered by the cooperatives.
7. To establish a National Cooperative Consultative Council (NCC).

Among the early programs was the "One Region One Industry" – SAWARI projects in which seven cooperatives have been identified to focus on a particular product. They are Industrial Cooperatives in Kampong Morak, Kelantan (silverware); Kampong Paka, Terengganu (sal leaves weaving); Jaffar Mek Limah, Kelantan (rice noodle); BERNAS Employees Cooperative, Selangor (rice products); MARDI Employees Cooperative, (cordial juices); Parit Raja Cooperative, Batu Pahat, Johor (snacks) and Mutiara Cooperative, Batu Pahat, Johor (snacks). Other measures taken by the government include: (i) involving the cooperatives in vendorship programs, including collaborative partnership with automotive industry; (ii) enhancing marketing networks for cooperatives through the "cooperative hub"; and (iii) encouraging networking between cooperatives and external business entities in new areas such as health, education and tourism (BERNAMA, February 28, 2004).

However, a recent Central Bank audit found that many cooperatives had serious weaknesses and were facing problems such as poor financial performance, cash flow and mismanagement problems and the lack of enforcement against members who break the law and deviate from the cooperative principles. In addressing these issues, the Malaysian Government has announced on March 2, 2005, that a commission would replace the present Cooperative Department so that it could mobilize the cooperative movement and their huge potentials. The commission will be a statutory body with its own act and will perform the following functions: (i) strengthening the Government's supervisory framework of the cooperative sector; (ii) mobilizing cooperative funds as a source of micro-credit; and (iii) focusing the future development and landscaping of this sector. Under this move, all cooperatives will be required to deposit excess or surplus funds in a Cooperative Deposit Account (CDA) so that the idle funds could be loaned out to

other cooperatives to finance their business operations. In addition, large cooperatives and cooperatives that offer credit services are required to contribute to a new Central Liquidity Facility (CLF). The facility serves as lender of last resort for cooperatives facing liquidity problems but these funds will not be used to bail out financially troubled cooperatives (*New Sunday Times*, March 6, 2005).

This latest event is to provide a more effective cooperative movement in Malaysia that could augur well not only for the economy but millions of its individual members. The National Cooperative Organization of Malaysia (ANGKASA) in welcoming the move stated that the cooperative movement needed more professional help, proper guidance, effective monitoring and less red tape. The reasons reflect the need to utilize resources available in this sector so that they can determine the performance of these cooperatives. The capacity of this sector should be geared toward making cooperatives in Malaysia the third viable catalyst for economic growth.

It is interesting to note that a report of the Secretary-General published on December 28, 1999 by the United Nations Department of Economic and Social Affairs (DESA) has highlighted the status and role of cooperatives in the light of new economic and social trends in the world. One of the concerns is the contribution of the cooperative movements in promoting and supporting entrepreneurial development so that they are able to create productive employment, reduce poverty and enhance social integration. In the United States of America, the National Cooperative Business Development has set up the CLUSA Institute for Cooperative Development in 1996 to act as a catalyst for the development of successful cooperative development models within the country and elsewhere. Similarly, the International Cooperative Alliance has encouraged cooperative enterprises in developing countries to have access to its business networks and trade assistance programs through promoting inter-cooperative trade. Strategic alliances between cooperative businesses within different regions would thus require high priority to be given on human resources development. The organization and management of cooperatives once again emphasized human resource development, and in particular training as important element in the cooperatives technical assistance programs (United Nations, 1999). As such, the next section will highlight the role of knowledge management as a key success factor in developing the cooperative movement in Malaysia.

## **POSITIONING KNOWLEDGE MANAGEMENT AS KEY SUCCESS FACTOR IN COOPERATIVES DEVELOPMENT**

The increase in number of cooperatives over the years may reflect the growing acceptance of this sector among the population. As more new members are

subscribing to join the cooperatives, efforts to conduct the cooperatives in a more professional way should be given utmost consideration by the management of these cooperatives. Mobilizing human resources in this sector also calls for changes in the running of the cooperatives. Greater emphasis on education and training are cited as one of the measures to improve conditions in the sector. Professional assistance from the new commission is required to ensure that the skills, abilities and learning capacity of the cooperatives are put to good use. These so called knowledge-based resources must be managed appropriately so they become vital tools to ensure competitive advantage of the cooperatives. In some developed economies, certain cooperatives dominated a particular segment of growth (Mohamed Khaled Nordin, 2005). For instance, in Japan, cooperatives dominate the consumer sector and in Germany, they are influencing the banking sector.

It is necessary to develop the structures, systems and strategies that allow the cooperatives to build their strength that can bring lasting benefits to members. The launching of the NCP and the timely introduction of the commission are frameworks to chart the future outlook of this sector while programs developed to implement the strategies will expose managers and employees of the cooperative with vast opportunities to enhance their experience and learning capabilities. Research and development activities together with continuous change in the cooperatives provide ample opportunities to acquire knowledge and applying them in the jobs and decision making to accomplish tasks for the organizations. The concept of knowledge management can enable cooperatives to use information and shared ideas in establishing networking among and between them. It is the underlying principles of knowledge management that guide managers of the cooperatives in making the right decisions and the employees in discharging their duties. It is the presence of knowledge management that produces new or different approaches in carrying out activities of the cooperatives.

The changing nature of the cooperatives requires capability of the employees and managers to determine the type of knowledge that they will need in the future. This represents competencies of the cooperatives such that all intellectual abilities and knowledge possessed by employees as well as their capacity to learn and acquire knowledge are geared towards effectiveness of the sector. It is in the context of managing information and knowledge that cooperatives should realize its potential as important catalyst in the growth of the Malaysian economy. The more disciplined and dedicated the sector, the more significant is the thrust to encourage knowledge management as a guiding principle in operating cooperatives in the country. The orderly development of this sector hinges on how well prepared are the management and employees to learn, gain and share more knowledge and experience in the process. Knowledge rich environments in

the cooperatives encourage strategic thinking among the managers and their subordinates to satisfy the members and subsequently end-users of the products or services provided by the cooperatives. Effective cooperatives often place individuals that can greatly contribute to achieving organizational goals. This however requires the persons to exercise certain degree of adaptability as well as being proactive to the changing events or situations. Adequate conditions to support the climate for increasing creativity and innovation in the cooperatives should be encouraged. Similarly, work culture and climate conducive to promote the value of knowledge sharing and communication must exist in the operations of the cooperatives. Human resources and their intellectual capabilities must be nourished so that they become effective forces in the development of cooperatives in Malaysia.

Figure 1 indicates the relationship between organizational effectiveness and the growth of cooperatives with knowledge management as moderating influence in the operation of the cooperatives. As managers and employees combine to produce effectiveness in the conduct of the cooperatives, their sharing of experience and information know how will enable them to better adopt to the changes in the industry and keep them abreast with requirements to achieve growth for the enterprises. Knowledge management must be given priority and attention so that organizations will be committed to develop and nourish the workplace with dissemination of vital information to assist the managers and employees in discharging their duties. People with ample knowledge tend to perform more appropriately in adverse conditions as they are more prepared to learn and unlearn circumstances that led to the uncomfortable difficulties.

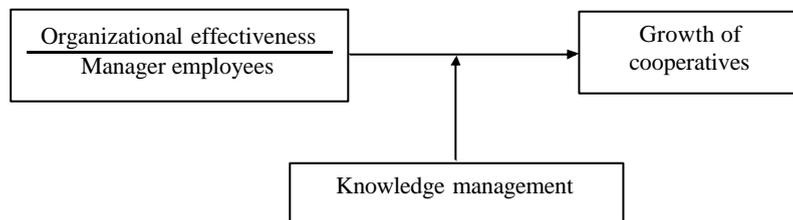


Figure 1. The moderating influence of knowledge management on growth of cooperatives

### **KNOWLEDGE MANAGEMENT AND ITS IMPLICATIONS ON FUTURE PERFORMANCE OF MALAYSIAN COOPERATIVES**

A comprehensive policy in mobilizing resources of the cooperatives has prompted the Government to establish a statutory body to formulate relevant strategies and programs that can contribute to the economic growth of Malaysia.

More than five million members of the movement are subsequently involved in this development as information and knowledge shared in the cooperatives have made them better and informed subscribers.

The greater emphasis on training and education especially on Information Communication Technology (ICT) will equip managers and employees in this sector with the necessary tools to disseminate information and their ability to adapt and acquire new knowledge and experience. Creativity and innovativeness as a result of exposure to new ideas are potentials in this sector that can be exploited as the cooperatives seek other businesses such as health, education and tourism.

Collaboration and networking among and between different cooperatives are the basis to encourage dominant influence of cooperatives movement in the country. In the midst of these is the significant role of knowledge management as it shapes the future outlook of cooperation in the sector. Willingness of cooperatives to share knowledge and adopt new structure and systems to facilitate the development of this movement are key indicators of future performance of cooperatives in Malaysia.

The NCP and the setting up of the Cooperative Commission can be said to represent timely conditions to tighten operations of the cooperatives. Changes in the environment either domestic or external pose little danger since the expertise gained through mutual cooperation among organizations has resulted in work culture and climate that placed the value of knowledge sharing and communication as their prime objective. As the Ministry of Entrepreneur and Cooperative Development looks toward meeting the objectives of the 9<sup>th</sup> Malaysia Plan, the management of knowledge shall underline the important link in the future growth of the cooperative movement in the country. The human capital in this sector must have ready access to information and they should also be trained to develop skills and further their knowledge in handling variety of tasks in their jobs accordingly.

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