

# Enhancing Malaysian NGO Effectiveness: Integrating Corporate Governance with Organizational and Economic Sustainability

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**Abstract.** Effective corporate governance is fundamental, providing the strategic oversight and accountability required for Non-Governmental Organizations (NGOs) to function transparently and ethically. This paper explores the critical interplay between corporate governance, organizational sustainability and economic viability in improving the effectiveness of NGOs, particularly in the elderly care sector. A qualitative interpretive research methodology was adopted, involving in-depth interviews with the top management of 10 Malaysian elderly care centres of NGOs operating in Klang Valley area. The findings revealed the majority of NGOs perceived corporate governance as a necessary pillar for sustainable NGOs. By identifying how robust governance frameworks influence organizational practices and economic sustainability, this study demonstrates the synergistic relationship that allows NGOs to establish long-term social impact. Therefore, a recommendation plan has been proposed. A comprehensive model that incorporated corporate governance and organizational sustainability has developed and comprising all the factors that are relevant for elderly care centres of Malaysian NGOs. The findings of the study suggest that integrating these elements not only improves organizational resilience but also build donor trust and community support, resulting to more effective and sustainable NGOs operations. This study will benefit the board of NGOs and policymakers to strengthen governance system in Malaysia.

## 1 Introduction

Malaysia, like many countries, is currently experiencing an increasing trend towards an aging population. As the old population expands, so does the demand for elderly care centres services [1]. NGOs that in charge of managing elderly care centres are leading this initiative and provide crucial assistance as well as their services. Nevertheless, these organizations frequently have concerns with regard to sustainability and financial constraints. As Malaysians' awareness of NGOs grows, corporate governance and sustainability have emerged as critical factors that determine whether NGOs can keep their relevance in society

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and competitive edge. Improving the efficacy of these NGOs is critical to ensure the ongoing provision of quality care and support for the elderly [18]. Similar to for-profit organisations, donors and other funders place more trust in effective NGOs as they are assumed to be fully transparent and accountable. Prior research has demonstrated common beliefs that NGOs need to re-evaluate their corporate governance practices and their managerial funds to safeguard their long-term viability [14]. It was revealed that the Malaysian elderly care sector suffers from insufficient law enforcement and a lack of transparency in its governance and regulatory structure [10]. Without adequate regulations and effective practice guidelines, it is more prevalent for malpractices to arise than to develop best practices [10]. Furthermore, if the elderly care centres of NGOs encounter major challenges of governance and inadequate management, this could undermine the sustainability of the centres [6]. Therefore, this study explored the corporate governance practices (if any) in elderly care centre and how they affect their economic sustainability.

The organisation of this paper includes literature review, methodology, findings, summary of findings, recommendations and suggestion for future research,

## **2 Literature Review**

### **2.1 Malaysian Elderly Care Centres of NGOs**

By 2034, when 15% of the population is aged, Malaysia would be considered an ageing nation as according to the National Statistics Department [1]. Based on the aforementioned data, there is a substantial likelihood that Malaysia's elderly population will increase significantly, making it more challenging to protect their rights. Along with the country's ageing nation status, institutional services that predominantly cater to the provision of residential care homes for the elderly are expanding rapidly, particularly throughout urban areas such as Kuala Lumpur, Selangor, Johor, and Penang in response to rising demand from employed individuals who are incapable to care for their elderly [9]. Some Malaysian policies adversely impact the elderly, either directly or indirectly. Nonetheless, there are no specific rules or guidelines in the country concerning the elderly [10]. Former president of Malaysian Healthy Ageing Society and practicing psychiatrist Prof. Dr. Phillip George highlighted that while elderly care centres are mushrooming on a regular basis, training for employees and amenities are lacking [10]. On top of that, elderly care sector are still inadequately managed in terms of structure, equipment, and methods of delivery. Despite providing a variety of services for the elderly, many centres face substantial issues in maintaining effective governance, securing sustainable funding, and assuring economic viability.

### **2.2 Corporate Governance and NGOs**

Corporate governance refers to the systems, processes and policies that guide the management and functioning of an organization [19]. In the context of NGOs, sound corporate governance is crucial for establishing transparency, accountability and effective use of resources [13]. Board composition and functioning, accountability and transparency as well as stakeholder involvement are all important aspects of corporate governance in NGOs. In order to provide effective governance and improve organizational performance, NGOs must decide the appropriate size of the board and its composition [2]. NGOs with larger board sizes are more likely to secure financial support, according to the findings [2]. A larger board size also holds more information, which will benefit the organizations in terms of their advisory function and ability to provide improved monitoring. [5] on the other hand, highlighted that lack of accountability and transparency of NGOs has contributed a

substantial impact on board composition. Since NGOs usually lack the institutional capacity and funding necessary to operate in many developing countries, board composition has emerged as a crucial aspect of NGO operations to guarantee efficacy and appropriate resource management [5]. In addition, [13] indicated that, there is a need for the board and management to clearly define their roles and responsibilities in the organization. [16] shown that the board of NGOs has additional responsibilities, such as supporting the organization's mission, participating in fundraising and promoting the organization. NGOs with a higher level of governance will gain public confidence and thus will be able to sustain themselves in the long run. Hence, this study aims to explore whether the corporate governance principles, primarily in the context of accountability and transparency have been implemented in the governance of Malaysian NGOs.

### **2.3 Sustainability and NGOs**

A broader definition of sustainability includes aspects related to the economy, society, culture and environment [12]. A finding indicated that sustainability consists of various components and traits that are centred on the survival and well-being of informal group, communities and associations that work to safeguard all common commodities [7]. In the context of NGOs, sustainability was determined and recognised based on a few variables, notably the capability of funding, community and human resources (i.e., subordinates promoting a sense of collaboration and cooperation in their sustainable conduct among employees [7]. A crucial aspect for long-term survival and operation of NGO is the accomplishment of financial sustainability as it helps NGO to continually deliver their services to their communities even in spite of critical shifts in their monetary resources [1]. Additionally, [1] claimed in the literature that the most influential aspect on the NGO's management efficiency and sustainability is their dependency on monetary support from donors, particularly from external sources. It implies that the organization may collapse if donors withdraw their financial assistance. Moreover, [17] demonstrated that the connection between NGOs and donors was one of the major organizational resources for the expansion and development of NGOs, resulting in long-term sustainability. To effectively interact with donors, NGOs must have a sound financial management system, a professional board with integrity, strategic planning and trained staff [12]. Furthermore, [7] discovered that board leadership is essential for the development and sustainability of NGOs nowadays. According to the study, the leader characteristic, communication transparency and the implementation of policies are critical factors in shaping NGOs' financial accountability and can be utilised to improve organisational sustainability.

### **2.4 Theoretical Framework**

This study contributes significantly to the new body of knowledge on corporate governance in Malaysian NGOs, particularly in the elderly care centres. This study will further develop the *stakeholder and resource dependency theories* by incorporation corporate governance practices. The definition of stakeholder refers to "any individual or group able to assert a claim on the interest, resources or performance of an organization or who may be impacted by the organization" [8]. Thus, in this study, the stakeholder theory considers other groups, such as donors, government, employees and communities, as having equal important stakes in NGOs because the organizations are not set up as profit-making initiatives, but rather to achieve a certain goal. As such, NGOs' board should provide essential voice to the stakeholders.

On the other hand, the theory of resource dependency addresses the issue of inefficiency of the board by arguing that the primary responsibility of directors is to allow access of

resources to the organization which is vital to its survival and have a significant impact on its key stakeholders [11]. The organization must ensure that external funding is acquired and dispersed accordingly as it is entirely dependent on it for sustainability [11]. Therefore, this study employs the resource dependency theory since NGOs depend heavily on resources from outside organization. Hence, it is crucial to properly utilize and invest these resources for the organization. It also complements the stakeholder theory, which holds that the board must take stakeholder interests into account in order to properly utilize all of the resources that NGOs need to succeed. Therefore, this study aims to prove that stakeholder and resource dependency theories provide useful foundations to identify corporate governance practices in Malaysian NGOs.

### **3 Methodology**

A qualitative research method was adopted within the research design [4]. This study was an exploratory as it investigates the establishment of corporate governance practices in the elderly care centres of Malaysian NGOs which contribute towards the sustainability of the centres. Given that this was an exploratory study in nature, the research questions were developed through an interpretive case study and evaluated utilizing qualitative methodologies. This study's unit of analysis particularly related to the organization which was the Malaysian NGOs. These NGOs were based in the Klang Valley area. Its purpose was to gather useful information on the rationale for practicing corporate governance in terms of effective management in the centres in order to achieve sustainability. In addition, the researcher gathered information from ten (10) Malaysian elderly care centres of NGOs who were registered under Registrar of Societies (ROS). The chosen samples included top management (chairmen, owners and directors) from centres that had been in operation for at least three years and above. A purposive sampling technique was employed to select ten (10) respondents from the centres, or until the results reached saturation. Besides, this study used three main data collection techniques: interviews, document analysis and field observation. The researcher conducted a thematic analysis using Braun and Clarke's (2006) framework method. [3] defined thematic analysis as a process for identifying, analysing and reporting patterns (themes) within data. In this study, thematic analysis was used in six stages; (1) data familiarisation; (2) initial code development; (3) themes searching; (4) themes reviewing; (5) defining and naming themes; and (6) reporting. According to [13] theme analysis is an effective research method in which the researcher strives to identify people's ideas, opinions, knowledge, experiences or values from a collection of qualitative data, such as interview transcripts or survey results.

### **4 Findings**

In this study, ten (10) respondents who comprised of chairmen, owners and directors were interviewed utilizing a structured questionnaire matrix. They all have at least 3-5 years of working experience in Malaysian elderly care centres of NGOs. The interview questions comprised a broad range of topics, including corporate governance principles and sustainability of NGOs. Each interviewed respondent's coded data was cross-referenced with another respondent to identify parallels and differences in their perspectives. The findings demonstrated that the elderly in the centres ranged in age from 45 to 90 years in the NGOs.

#### **4.1 Pertaining to the question of whether NGOs practise corporate governance in their organizations.**

##### ***Transparency***

- i) Shares on-going issues and new developments with community
- ii) Regular updates regarding development plans and programmes

Pertaining to the NGOs' transparency, majority of NGOs made all organizational information available, primarily to the public, as the findings showed that they regularly updated the community on the on-going issues and new developments as well as provided regular updates regarding the development plans and programmes of the NGOs. These findings were consistent with past literatures [2,5]. A respondent expressed the following impression:

*“We provide a brochure that includes plans and developments as well as activities updates to the public. However, for reasons of confidentiality, we prefer to keep financial statements to public as we are not profit-making businesses and our concentration is on providing a high level of service to our stakeholders rather than generating money” (Participant C06)*

##### ***Accountability***

- i) Complies with submission of financial reports to ROS
- ii) Furnish minutes of meetings to ROS

Regarding the accountability of the NGOs, the findings revealed that majority of NGOs complied with ROS's request for financial reports. The respondents disclosed that in addition to submitting their audited financial statements to ROS, they also had to give ROS access to all of the governing papers, such as minutes meeting, receipt books and bank account books. It was demonstrated that in order for their organizations to keep running and obtain government funding, they need to comply with the rules set down in the Societies Act of 1966. However, the disclosure of financial reports to the public can be made voluntary by the NGOs who registered under the ROS. The findings were in line with the previous research as NGOs which rely on government funding were more subject to accountability standards [16]. The feedback from the participant is stated below:

*“We hold general meetings every year and must disclose some information such as minutes of meeting to the Registrar of Societies, who monitors our activities and operations. We must adhere to their requirements in order to continue operating and receive their grant” (Participant C01)*

#### **4.2 Pertaining to the question as how do they sustain their organizations**

Their responses on how their organizations sustain themselves were varied, but majority of the respondents agreed that their NGOs relied on both internal and external funding to sustain their organizations. Fundraising and organizational resources (i.e. volunteers and employees) were the most prevalent internal efforts to support their NGOs. Meanwhile, the NGOs had also received significant amounts of funds from different groups of donors to improve their operations and there was generally positive support from the governmental and private sectors. The findings revealed that NGOs with good fund development provide a reasonable assurance of their sustainability, especially in terms of economic sustainability. These findings were consistent with previous findings [1,7]. The feedbacks from the participants are stated below:

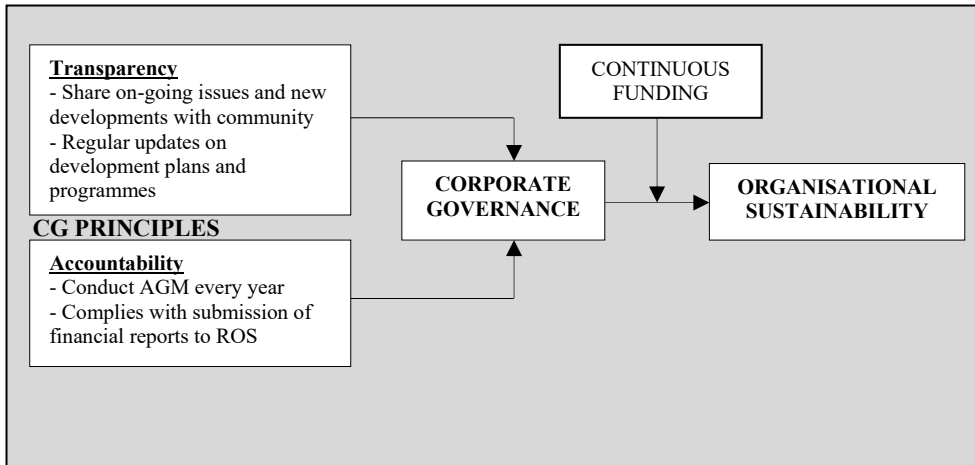
*“When we talk about sustainability, we are not concerned much about the financial aspects as there will always be those who are concerned about how to preserve the existence of our organization. We are also survived because of volunteers who are committed to work. People enjoy coming here to offer their services” (Participant C03)*

*“This centre survives due to public’s assistance over the years. We rely heavily on donations and community involvement to keep going. We also are easily to get rapport with the University and private agencies contribute their support in terms of monetary and also non-monetary resources to us. I believe that’s the reason why we’re still relevant until now” (Participant C01)*

## **5 Summary of Findings**

As can be seen from the previous findings, the researcher’s thinking led to the question of whether or not the sustainability of elderly care institutions run by Malaysian NGOS is prone to being influenced by corporate governance practices? According to the findings of this study, providing information that goes beyond financial disclosures has been shown to significantly improve both the overall perception of NGOs and the proportion of interested donors who stated they would donate to the organizations. Donations will be increased when NGOs deliver a high level of transparency of information, notably in terms of financial reporting, which will influence their sustainability. This viewpoint is also consistent with [1,7,12]. Furthermore, this study discovered that corporate governance practises played an important role in enhancing the economic sustainability of NGOs, and it was vital for these NGOs to examine the practises of corporate governance they adopted in the management of their day-to-day operations to accomplish superior outcomes.

As a result, this study recommends that NGO governance model be seen from larger perspective and with a more adaptable approach to develop effective corporate governance standards. The researcher concluded that an effective model for Malaysian NGOS, particularly elderly care centres, should be formed on the core characteristics of effective corporate governance while also being suited to Malaysia’s needs. The findings were consistent with theoretical framework which included stakeholder theory and resource dependency theory in the model. Figure 1 below highlights how corporate governance practices influence sustainability of Malaysian NGOs, notably elderly care centres.



**Fig. 1.** Model of Corporate Governance in the Elderly Care Centres of Malaysian NGOs

## 6 Implications for Practice

While considering the current practices of corporate governance in Malaysian elderly care centres of NGOs, the following implications have been proposed to facilitate the practices of their day-to-day operations in order to achieve greater progress in the organization.

It is imperative that more stringent reporting standards must be implemented on Malaysian NGOs to boost the credibility and ensure their sustainability. NGOs must adopt specific accounting standards, as well as requirements for preparing budgets and other financial records connected to their operation.

Besides that, due to the fact that it is not mandatory for NGOs registered under ROS to have their financial statements audited and that auditing of these statements is done on a voluntary basis, this situation may result in the misuse of funds and other unethical business practices. Thus, given these circumstances, the government of Malaysia must impose new principles and a code of governance as means of evaluating the performance of Malaysian NGOs in the course of their service provision.

Another way to ensure its sustainability, NGOs must also establish board committees to maintain their long-term viability. It is critical in this process to support formation of primary committees, such as those for nominations, audits, risk and the fund-raising. These will enhance the board's effectiveness and assist them meet their commitment to sound corporate governance in their respective NGOs.

## 7 Contribution of the Study

This study explored the corporate governance role influencing sustainability of Malaysian elderly care centres of NGOs. The qualitative research strategy was adopted to identify the practices of corporate governance used by the NGOs. This experience could provide the NGOs' leadership with valuable insights in the methods necessary to maintain the organization's current level of service. Additionally, in order to accomplish the purpose of the study, reliable methods have been used and phenomenological case study methodology was being employed to collect information for analysis. Stakeholder theory and Resource Dependency theory underpinned this study. The elderly care centres of NGOs comprised with different stakeholders (Stakeholder Theory), whose survival depends on maintaining coalition of support to obtain resources (Resource Dependency Theory). The findings

revealed that these theories were applicable to NGOs as corporate governance is seen as the silver bullets to affect elderly care centres' performance and ensure their long term viability. Accountability and transparency are fundamental to preserving the public's trust in the NGO sector and should underlie every aspect of the work that is carried out by the organizations.

From the practical perspective, this study proposed a corporate governance model that can be applied by the elderly care centres of NGOs in Malaysia. This approach can assist the top management of NGOs in building their organization's image over time in an objective manner to increase the trust of their stakeholders and the faith of the general public in them for their long-term survival and financing. Besides, the study offered suggestions for public policy that the government should use to better concentrate its attention on the NGOs governance that were registered under ROS.

## 8 Conclusion

The purpose of this study was to investigate the influence of corporate governance practises on the organisational and economic sustainability of Malaysian elderly care centres of NGOs. This subject has drawn a lot of attention in the past, but study on the influence of corporate governance, with a focus on elderly care centres run by Malaysian NGOs has been scarce. As NGOs are not for-profit organizations which they rely heavily on external funds and resources, it is critical that they portray themselves as trustworthy organization and the board must aware that it is their obligation to act solely in the best interest of the NGOs for which they are responsible. Consequently, NGOs must provide information and accountable to their key stakeholders including beneficiaries, donors, employees and public in order to gain support from them. The disclosure of financial information is especially important since it has the potential to affect a potential donor's decision to provide financial support to the organization, as well as indirectly influence the organization's sustainability. Therefore, all NGOs must be fully transparent and accountable to obtain donations from their key stakeholders. This study may also assist policymakers in developing strategies for NGOs to strengthen their regulatory structures so that they will be more in line with systems used by other NGOs in other countries. These strategies could be developed with the assistance of this study.

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