

## THE EFFECT OF COOPERATIVE PROGRAMS' SUITABILITY, MEMBER'S PARTICIPATION, AND THE LINKAGE BETWEEN MEMBER'S BUSINESS AND COOPERATIVE'S BUSINESS TOWARDS COOPERATIVE MEMBER'S BUSINESS INNOVATION OF PRODUCER COOPERATIVES IN WEST JAVA PROVINCE, INDONESIA

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### ABSTRACT

*To survive in today's hyper-competitive environment, every business is constantly searching for the best method to improve its competitiveness. In fact, over a decade the growth of Cooperatives were relatively decreased, nearly about 20% of cooperatives in Indonesia have been shut down by the government due to could not held the annually members meeting for years and their miss-management. Cooperative seems lost its strategic development concept in response to the fast-growing competition in global market. The failure to utilize principles in choosing suitable competitive strategy and the lack of participation and innovation causing less optimal competitive strengths are the other reasons (Yuyun Wirasasmita, 2005). This research aims to explore factors that dominantly affecting Cooperative Member's Business Innovation, there are: Cooperative programs suitability, member's participation, and the linkage between member's business and cooperative's business variables on producer cooperatives in West Java province, in Indonesia. A quantitative analysis is proposed based on the results of 210 surveys of cooperative members-producers. Data analysis used Structural Equation Model (SEM) with AMOS 23 software. The results shows that all variables, both simultaneously and partially give significant effects to the member's business innovation of Producer Cooperatives in West Java Province, Indonesia.*

**Keywords:** Program Suitability, Member's Participation, Business Linkage, Member's Business Innovation, Producer Cooperatives.

### 1. Introduction

The number of international scale cooperatives in Indonesia or the cooperatives which are ready to compete globally is still limited. This is marked by the lack of Indonesian cooperatives which ranked the top 300 cooperatives of the world via ICA version. The fact also indicates that Indonesian Cooperatives are not ready yet to face global competition yet. Cooperatives which are expected to be the economic empowerment for community members, especially in West Java Province, still have many weaknesses due to almost 4.015 cooperatives were closed down by the Government in 2017, due to not having the Cooperative members' annual meeting, and the ones which classified as passive cooperatives (Adji, Y., 2017) and almost 20% of Indonesian Cooperative inactive. (Cooperative and SME Ministry, 2011).

As stated by Peter Davis (2009:1) two decades ago: "*Cooperatives are characterized by the absence of a substantial degree of lack of entrepreneurial spirit or culture that leads to missed opportunities and lack of innovation*"

To survive in today's hyper-competitive environment, every business is constantly searching for the best method to improve its competitiveness thereby the business keeps running and successful. This is also felt by the Cooperatives in West Java Indonesia, in particular, and might be in Asian developing countries in general.

In fact, over a decade the growth of Cooperative relatively decreased. According to Yuyun Wirasasmita (2005), Cooperative has lost its strategic development concept in response to the fast-growing competition in global market. The failure to utilize principles in choosing suitable competitive strategy and the lack of innovation causing less optimal competitive strength are the other reasons.

Yuyun Wirasasmita (2005) revealed that the low performance of Cooperatives was also due to the absence of Cooperative rules reflecting efficiency, product differentiation, and the dominance of government intervention (top down approach) especially in the early years of the formation, coaching, and development. On the contrary, if efficiency, product differentiation, and innovation are developed properly, the members will be motivated to actively participate in the cooperative's activities, and initiatives will grow from the members (bottom-up).

The obstacle of member participation is due to the necessity to be present at the site (at the Cooperative). To always connect with the members, winning their hearts and beliefs becomes a very crucial matter (Glen Tully, 2012).

Based on the above phenomenon, it is required a method and policy to develop cooperatives, especially in facing a disruptive global competition. In this study, the researchers take 10 Producer Cooperatives in West Java as population which included to the classification as sample.

## 2. Review of Related Literature

### 2.1 Program Suitability

Hanel, Alfred (1985) states that at the beginning of the formation, cooperative management must establish a clear *Forderplan* (program or service plan) related to the business and interests of the members and rational framework in carrying out its duties to promote the Member's interests. Then at the end of the working time, it is necessary to prepare *Forderbilanz* (the service balance) to evaluate the extent to which service program can be implemented. Due to the linkage between Member's and Cooperative business, Besanko (1996) in Reniati (2012), argues that cooperative ideally serves as cost driver and benefit driver for its members. Therefore, cooperative needs to apply low cost strategy and service uniqueness strategy (Porter, 2004) in its effort to promote Member's interests.

Such benefits should be identifiable in the cooperative service program and the cooperative members should be involved in the preparation and attestation of the program.

The followings are steps in preparing cooperative service:

- (1) Identify economic activities of the Member's business
- (2) Formulate economic problems faced by the Member's business
- (3) Develop alternative problem solving and establish the best alternative for the basis of preparing cooperative service program
- (4) Develop cooperative service plan to be approved and attested by member meeting which includes matters concerning service targets, determination of success criteria and evaluation methods.

Although the raw form has not yet found, at least it is an attempt to remind the Management and Manager that the program offered suits the needs and wants of its members and the quality of service to members should be a priority.

### 2.2 Member's Participation

Ropke, Jochen (1989) suggests that participation can be defined as a process whereby a group of people (members) find and implement cooperative ideas. With participation, members indicate and state their interests, as well as participation, mobilized resources, and implemented and evaluated decisions. Thus, if participation is performed by the members, then the policy will be more directed, not only based on the presupposition on what the members want, but also based on the real interests of the members. The above view can be realized that the participation will be accomplished if there is suitability between what the members expected (needs, interests) and the program planned by the Cooperative. Ropke, Jochen (1989) illustrates the suitability of these aspects in the form of fits model.

The suitability between Member's interests/needs and the output of the Program offered by the Cooperative, between Member's interests/needs and the decision/policy issued by the Management, and the fit between Management's capability/competency and demand of tasks and programs.

Participation encouraging members to be responsible in group activity is a social process to be successfully achieved, so that the Cooperative is managed and financed as a self-owned company. Similarly with the working problem, in the sense of belonging and caring, participation makes the members be better and more responsible.

According to Ropke, Jochen (1989), participation in cooperative is characterized by the principle of identity and can be realized if the service provided by the cooperative organization 'fit' the Member's interests and needs. Participation of members can be distinguished into three types:

- 1) Participation in the contribution to mobilize the resources
- 2) Participation in making decisions (planning, implementation and evaluation of Cooperative programs as well as in election of Board, and Supervisor).
- 3) Participation in enjoying the benefits and services of the Cooperative

The three types of participation are closely related to the achievement of the objectives. Such linkage can be illustrated as shown in Figure 2.2 below.

Considering the figure, the ideal participation is the participation as a whole in making the decision, determining policies, programs, directions and business steps, participating in supervising the business process, capitalizing business capital, utilizing business services, and enjoying the dividend. The realization of ideal participation reflects the economic democracy implemented in the Cooperative as one of its basic foundation and characteristics.

### 2.3 The Linkage between Member's Business and Cooperative's Business

Cooperative is often considers as social enterprise. The linkage between member's business and cooperative's business can be identify by whether cooperative is an embedded market linkage model (the social program is the business) with it's members owners' activities / business. A cooperative model of social enterprise, provides direct benefit to it's target population or "members-clients" through member services: economies of bulk purchase, collective

bargaining power, access to product and services, access to external markets for member-produced products and services, etc. The cooperative membership is often comprised of small-scale producers in the same product group or a community with common needs. Cooperative members are the primary stakeholders in the cooperative, who are beneficiary of income, employment or services, and investing in the cooperative with their own resources of time, money, products, services, etc. (The Four Lenses Strategic Framework, 2018).

#### 2.4 Business Innovation

Another noteworthy factor of Member's performance success is innovation. Late in 19<sup>th</sup> century, Higgins, James M. (1995) views innovation as how a firm or an individual makes money from creativity. Innovation is a process of creating new ideas and putting them into practice. Innovation includes various aspects of process, product, and managerial. Within the organization, process innovation is the best way to do the things. Product innovation involves the creation of new ideas or improvement of goods and services. Managerial innovation involves supports in invention, art of invention, application and the use.

##### 2.4.1 Types of Innovation

###### A. Product Innovation

Product innovations are new physical products or services or enhancements to existing products or services.. (Higgins, James M, 1995). The existing products which reach saturation point need to be innovated and replaced. The replacement may be in the form of a completely new replacement product or the modernization of the existing product, so that the products remain to meet the consumer's expectations.

Product Innovation have a three-tiered model of product level development : Kaizen (continuous improvement), Leaping (developing new products out of old ones) and genuine Big Bang innovation. All three types are increasingly being pursued simultaneously.

###### B. Service Innovation

The concept of service innovation proposed by Miles (1993) in Reniati (2012) is as follows:

1. Innovation in product development
2. Innovation in the process; new ways or improvements in the process of designing and producing the services
3. Innovation in service company, organizations and industries; including organizational innovation, innovation process, and innovation process management in service organization

While Higgins, James M (1995) define Process Innovation as a significant improvement in an organizational process, that occur throughout the organization.

###### C. Management Innovation

A management innovation is a significant improvement in the management of the organization. (Higgins, James M., 1995)

Product, process and management innovations help increase both effectiveness and efficiency.

### 3. Methods

This research is a survey research on 10 producer Cooperatives in West Java Province, Indonesia.

According to Singarimbun and Efendi (1989), survey is a study which takes samples from one population using a questionnaire as data collection technique. This research is verification research because it tests the hypothesis based on the result of primary data analysis from the field. Primary data collection technique is performed through direct interview and structured-based questionnaire. In order to complete the results of structured interviews, observations and in-depth interviews with predetermined informants are performed as well. Secondary data were collected through literature study and documents/reports of Cooperative 's Annual Members Meeting.

#### 3.1 Source and Sampling

Population is a collection of all elements included in the sources of information in a study. Population is the whole object (units/individuals) whose characteristics will be examined. Population is a complete set of all elements (scores, people, measures, etc.) learned (Siswoyo H, 2012).

The subjects of this study obtained through purposive sampling technique. Purposive sampling is determined by multistage cluster random sampling, with simple random sampling to determine the producers respondent samples. The number of respondents selected is 250 people (1.4% of the target population members, from 10 samples of cooperative totaling 18,489 members). The sample has fulfilled the provision. When there is no information in a population gained about variance, then for a large population (N) (1,000-10,000) the small sample percentage, (n) can be taken by 0.1%, 0.5%, or 1%.

#### 3.2 Plan Analysis

The data obtained from the results of questionnaires and secondary data collection will be analyzed through 4 (four) steps of analysis: coding, editing, data processing, and data analyzing. Data from the distribution of questionnaires are used as a measure of research variables, and obtained score of ordinal measurement levels.

Considering that the purpose of this study is to measure the effect of Cooperative's Programs Suitability (to member needs and wants), Member's Participation, and the Member's and Cooperative's Business Linkage on Member's Business Innovation, the approach in modeling and technique of solution to be used in this research are Purposive Sampling Technique, Structural

Equation Modelling (SEM) with AMOS software version 23. The reason in choosing this method is because of it's ability to measure the construct indirectly through it's indicators and analyze the indicator variable, latent variable, and it's measurement error. Descriptive analysis of four research variables is carried out by analyzing each dimension of research variable for each sample.

Besides, the data are analyzed descriptively in purpose to see the population characteristics. The data of this study are also analyzed based on the suitability between the research criteria and the required analytical prerequisites.

Research results: the calculation made using the software Amos version 23 showed the complete model on the effect of Program Suitability variable, Member's Participation variable and Member's and Cooperative's Business Linkage variable towards Member's Business Innovation variable as follows:

**Research Results**

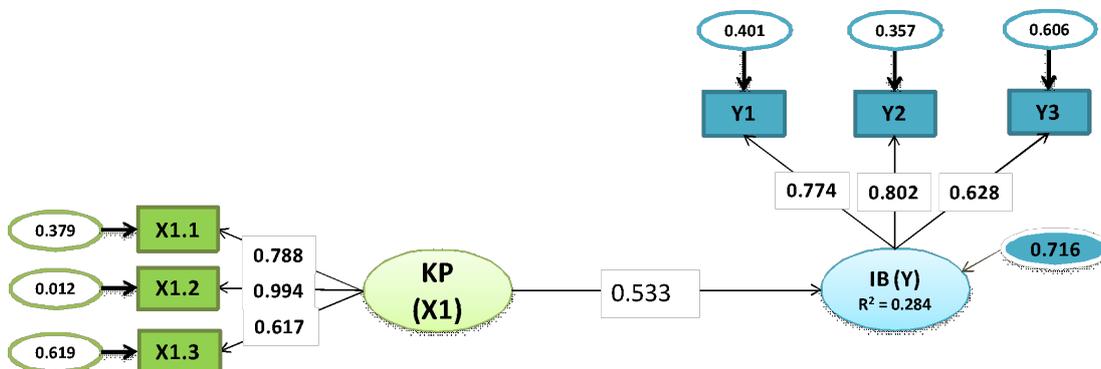
**4.1.1. The Individual Effect (Partial) of Program Suitability on Member's Business Innovation**

Program Suitability (X1) is hypothesized to affect Member's Business Innovation (Y). Calculation of the hypothesized effect model was done using Software Amos 23.

Through a number of score responses regarding the Program Suitability variable, then it can be noted that the responses of the respondents regarding the Suitability of the Program included in the category of "appropriate". It's mean that Cooperative's Programs with the needs, wants and interests of the Cooperative' members are appropriately suitable.

The results of statistical tests show that Programs Suitability affect Member's Business Innovation variable. Based on the value of R2 = 0.284 Program Suitability directly affected the Member's Business Innovation of 28.4%. This means that the Cooperative's Programs Suitability (to member needs and wants) gives an influence of 28.4% on Member's Business Innovation. The members' innovation motivated by their aspiration, needs and wants that responded or concerned by Cooperative Management.

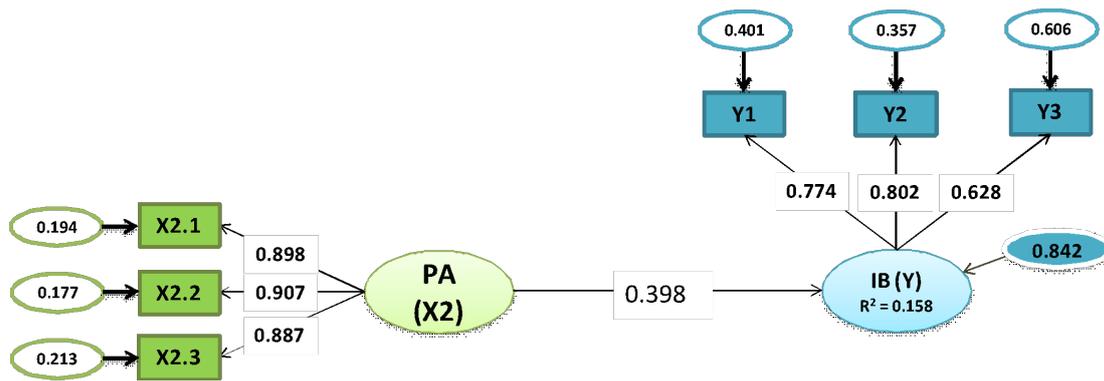
Based on the results of the hypothesis test indicates that the value of the coefficient of 0.533 in lines with a value of t-count 7.030. A value of the t-statistic value obtained (7.030) greater than t table (1.971). Thus based on the test results can be said that the Programs Suitability significantly effect Member's Business Innovation.



**4.1.2. The Individual Effect of Member's Participation to Member's Business Innovation**

Member's Participation (X2) is hypothesized to affect Member's Business Innovation (Y). Calculation of the hypothesized effect model was done using Software Amos 23.

Through a number of score responses about Member's Participation variable, it can be noted that the responses of the respondents regarding the Member's Participation included in the category of "good". The hypothesis to be tested is the effect of the Member's Participation to Member's Business Innovation. The relationship of causality (effect) of the Member's Participation to Member's Business Innovation based on the value of R2 = 0.158 shows that Member's Participation effected directly to Member's Business Innovation amounted of 15.8%. This means that Member's Participation giving the influence of 15.8% towards Member's Business Innovation if other variables are constant.



Based on the results it can be said that Member's Participation effected significantly to Member's Business Innovation. This means that member's business innovation depends on member's participation to start with. This usually happened in the form of member's groups product innovation or process (service) innovation that contribute to be Cooperative's product or process as a whole.

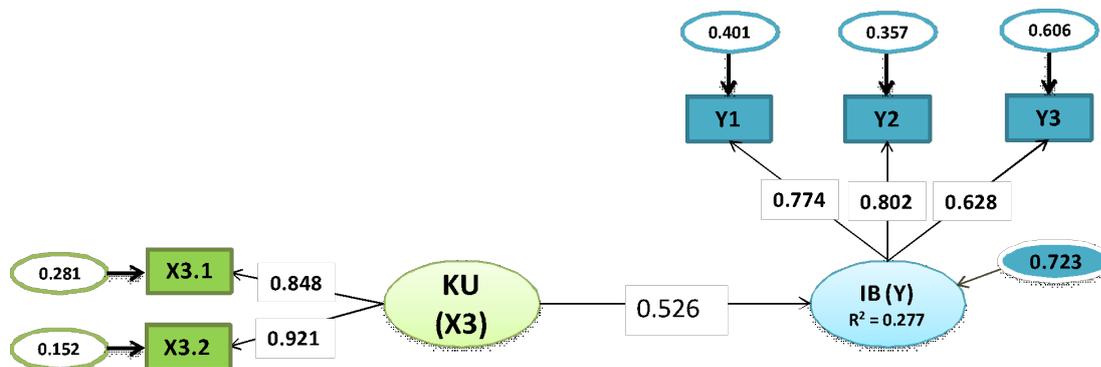
**4.1.3. The Individual Effect (Partial) of Member's – Cooperative's Business Linkage (X3) to Member's Business Innovation variable (Y)**

Through a number of score the responses about the Member's – Cooperative's Business Linkage variable, it can be noted that the responses of the respondents regarding the Member's – Cooperative's Business Linkage included in the category of "good".

The hypothesis to be tested is the effect of Member's – Cooperative Business Linkages toward Member's Business Innovation. The relationship of causality (influence) the Member's – Cooperative's Linkage to Member's Business Innovations shown in the value of 0.526 with coefficient R2 = 0.277.

Based on the value of R2 = 0.277 Member's – Cooperative's Business Linkages directly effected Member's Business Innovation of 27.7%. This means that Member's – Cooperative's Business Linkages influence 27.7% to Member's Business Innovation if there are no other variables considered.

So, based on the results of the hypothesis test indicates that the value of 0.526 line coefficient with a value of t-count 7.830. A value of the t-statistic value obtained (7.830) greater than t-table (1.971). Thus based on the test results it can be said that the effect of Member's – Cooperative's Business Linkages significantly effected Member's Business Innovation.



This means that Cooperative member's business innovation could be encourage by member's – cooperative's business linkages. If there is no linkages so there is neither member's business innovation contribution to cooperative's performance nor to cooperative's innovation as a whole.

From all the results above thus, it can be concluded that the effect of Cooperative's Programs Suitability, Cooperative Member's Participation and Member's - Cooperative's Business Linkage on Member's Business Innovation is about 72% altogether and the effect of Programs Suitability variable on Member's Business Innovation is greater than either the effect of Member's - Cooperative's Business Linkage variable or Member's Participation variable on Member's Business Innovation. The effect of other factors in addition to Programs Suitability, Member's Participation and Member's - Cooperative's Business Linkage variables are about 28%.

From the research results show that the more suitable of the Cooperative's Programs to the needs, wants and interest of the Producers Cooperative members, the better the linkage of members' business and Cooperative's business, the more the members will be motivated to participate and innovate.-

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