



# Are cooperatives facing apparent death? The case of cooperatives in Palembang City, South Sumatera, Indonesia

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## Abstract

This study aims to examine the indicators that affect the failure of the Cooperative movement in maintaining identity. Research was conducted on managers and members of the Cooperative movement in Palembang City. The population of the Cooperative Movement is 150 people. Analysis of research data using descriptive and inferential statistical methods. The analysis model uses *Structural Equation Model* (SEM) with Lisrel application. With sub-structure Composition: Management, Competence and Commitment as endogenous variables and Government assistance and Survival as an exogenous variable The result of the research shows (1) in the first sub-structure that Government Assistance variable, Competence variable and Commitment variable together, have positive and insignificant effect on Cooperative Management, but partially only Commitment variable have positive and significant effect to the Management of Cooperatives (2) on the main structure that Government Assistance variables, Management variables, Competence variables and Commitment variables together positively affect the survival Cooperative in the city of Palembang. From the results of the analysis of influence direct or indirectly it can be concluded that to maintain the survival of cooperatives in the city of Palembang, Commitment Variables have more dominant influence compared with the Management Variables, Competence and Variables, Assistance Variables. It is suggested to the cooperative organization and local government in Palembang City that to maintain the survival of cooperatives, it is necessary to pay attention to the effort of assisting human resources of the cooperative activists and it is also necessary to implement the agreed commitments as set forth in the Articles of Association.

**Keywords:** Government Assistance; Competence; Management; Commitment and Survival

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## 1. Introduction

Cooperative is a joint business entity which is based on the principle of people's economy (*Ekonomi Kerakyatan*) based on the principle of kinship. Cooperatives possessed various advantages, such as cost efficiency as well as increasing economies of scale. These advantages make the cooperative as a form of a very prospective business entity in Indonesia. However, a phenomenon that is quite a dilemmatic is when it turns out that the Cooperative, with its various advantages turns out faces difficulties to develop in Indonesia. The Indonesian Cooperative development is facing stagnancy or even declines in the last 15 years.

Cooperatives in Indonesia in its development experienced ups and downs. The question is then, "Why is the Cooperatives are difficult to develop?", whereas government's efforts to empower Cooperatives are never-ending and perhaps very indulgent. Various government assistance packages were given, however there are some obstacles faced by the cooperation such as lack of member participation and lack of human resource. For member participation, the question is that how can they participate more if they did not even understand what the cooperative is about? It results into Cooperative members not showing their participation be it as a contributive or incentive to their own cooperative activities. The lack of education and training provided by the management to the members of the cooperative is suspected to be the main factor, since the management assumed that it would not be beneficial for themselves. Cooperative activities that do not develop is the reason why the source of capital becomes limited. The limited business is due to the lack of support and contributions from its members to participate. Therefore, all problems stem from the participation of members in supporting the formation of a formidable cooperative, and provide benefits to all its members, as well as the surrounding community

Most members, both managers and administrators were unable to support the survivability of Cooperatives. In such condition, the Cooperatives were run unprofessionally and unsuitable with how business usually runs. Often times, the establishment of Cooperatives were based on government's encouragement. As a result, the establishment of most cooperatives were not bottom-up but rather a top-down. Boards elected in membership meeting are often elected based on their social status. Thus, the management of Cooperative is carried out with the lack of strict control from its members. Managers appointed by the board are often lacks of professional background. They lack experience both academically and entrepreneurship.

Based on Law No. 25 of 1992: Empowerment, the role of government in terms of control such as Supervision, Monitoring and Evaluation of Cooperatives, is done by the Office of Cooperatives. The control of cooperatives in the area of Palembang City is done by the Department of Industry, Trade and Cooperatives by establishing policies that encourage Cooperatives to grow and develop properly. Where the Department requires the cooperative to always grow and develop in accordance with the rules set out in the law cooperatives and each cooperative shall perform the bookkeeping presents financial statements and accountability reports cooperative management, periodically, from its development, cooperative in Palembang City is illustrated in the Table 1.

Based on the data of the development of cooperatives in Palembang it appears some of the existing cooperatives are not active both in running its business and its institutional matters, in conducting report on

the implementation of Annual Meeting of Members (Rat). The numbers of active Cooperatives can be seen in the Table 2.

**Table 1.** Cooperative Registered in Palembang City for 2015-2016 Period

No	Cooperation	2015	2016
1	Village unit cooperative (KUD)	8	8
2	Savings and Loan Cooperatives (KSP)	628	623
3	Co-operative business (ksu)	49	49
4	Cooperative employee republik Indonesia	320	330
5	Farmer Cooperative (koperta)	15	15
6	Plantation Cooperation	3	2
7	Cooperative pesantren (koppontren)	2	2
8	Retired cooperative	1	1
9	Female cooperatives (kopwan)	-	2
10	Cooperative producers	-	-
Total		1.026	1.032

**Table 2.** Active Cooperatives for 2015- 2016 Period

Years	Active Cooperation
2015	633
2016	657

Reflecting the reality of the existence of the cooperative, it is necessary to study, the reason why cooperatives are generally failings, both in the city of Palembang and in other cities in Indonesia. This study aims to understand why cooperatives are facing difficulties to develop with several objectives such as (1) to assess whether the program of assistance developed by the local government has reached the target desired by the cooperative movement; (2) to examine the performance of the Cooperative Management, regulatory bodies and managers as well as members of cooperatives, whether they have been in accordance with established cooperative provisions; (3) to examine the competencies of the cooperatives managers and administrators, so that the Cooperatives are feasible to be established and can develop in accordance with the expectations of its founders; and (4) to examine the Commitment and its influence on Cooperatives survival / identity.

## 2. Literature review

### 2.1. Government assistance

Government Assistance to Cooperatives in Indonesia is regulated by Law No. 25 of 1992 on Cooperatives, which specified as follows: (1) The Government is obliged to create and develop a climate and condition that encourages the growth and socialization of Cooperatives; (2) The Government shall assist, facilitates and protect Cooperatives; (3) The Government shall provide businesses as wide as possible for Cooperatives; (4)

Improve and strengthen the ability of cooperatives to be healthy, tough and independent; (5) The Government shall strive for a mutually beneficial pattern of business partnership for Cooperatives with other business entities; (6) In order to provide guidance and convenience to cooperatives the Government shall encourage, develop, and assist the implementation of education, training, counseling and cooperative research; (7) Government Assistance on cooperatives is done by taking into account national economic conditions and interests, as well as equal distribution of employment opportunities, and business opportunities

## 2.2. Theories on competence

Competence is the basic characteristic of a person that enables them to perform superior performance in their work. According to Saifuddin (2004), a competent person is a person who with his skills are able to perform tasks easily, quickly, intuitively and very rarely or never make mistakes. Spencer and Spencer (1993) defines competence as a basic foundation of people's characteristics and indicates how they behave or think, equate situations, and support for long periods of time. Wibowo, (2016) defines competency as an ability to perform a task or work based on skills and knowledge and supported by the work attitude demanded by the job.

According to Byars and Rue (2006) competence is defined as a trait or characteristic required by a holder of an office in order to perform a position well, or can also mean characteristics a person easily visible including knowledge, expertise, and behavior that allows them to perform. Considerations for Competence needs include (1) future requests related to strategic plans and objectives of operational funds of the organization; (2) anticipate the need for change of management and employees; (3) changes to the processes and technologies and equipment of the organization; (4) evaluate the competence of employees in implementing the activities and processes established.

Based on the description, the meaning of competence contains a deep personality section and attached to a person with behavior that can be predicted on various circumstances and work/tasks. The prediction of who performs well or not can be measured from the certain criteria or standards. Competence analysis is largely devoted to career development, but determining the level of competence is also required to determine the expected effectiveness of the performance. Based on the description, it can be concluded that the competence is the ability and willingness to perform a task with effective performance. This conclusion is consistent with what Armstrong (1998) says, that competence is the knowledge, skill and quality of the individual to achieve the success of his work.

## 2.3. Theories on commitment

According to Ivancevich et al. (2008), Commitment is a feeling of identification, involvement, and loyalty expressed by workers to the company. Commitment defined by Kreitner and Kinicki (2010) as an agreement to do something for yourself, other individuals, groups or organizations. Schermerhorn et al. (2011) defines commitments as an individual's loyalty to the organization, Gibson et al. (2012) defines organizational commitment as a feeling of identification, loyalty and involvement expressed by workers towards organizations or units within the organization. From several definition on commitment, it can be concluded

that the commitment is the feeling, attitude and behavior of individuals identifying themselves as part of the organization, involved in the process of organizational activities and loyal to the organization in achieving organizational goals.

#### 2.4. Management of cooperatives

In an organization, the role of the board is very important, as well as the board in a cooperative. Cooperative management is a member of a cooperative that is mandated in member meetings to lead the way of organization and cooperative effort (Law No. 25 of 1992). The board determines whether the work programs agreed upon in the members' meetings are truly viable. The board also determines whether the cooperative can be accepted as a trusted business partner in the business environment. Management in the cooperative has a very decisive position for the success of the cooperative as an economic organization with a social character. A term of office of board is not more than 5 (five) years. Regulations on to be elected and appointed as a member of the board are stipulated in the articles of association. The board is responsible for all activities of managing the cooperative and its business to the meeting of members or meeting extraordinary members. Number of Management at least 3 people consisting of elements of chairman, secretary and treasurer.

#### 2.5. Survivability/identity of cooperatives

That the Cooperative, both as a people's economic movement and as a business entity participates to realize a developed, just and prosperous society based on Pancasila and the 1945 Constitution in the national economic order which is organized as a joint effort based on the principle of kinship and Pancasila democracy that cooperatives need to be more self-built and built to be strong and independent based on the principles of cooperatives so as to be able to act as a pillar of the national economy.

Based on the purpose of this study, the variables analyzed are independent variables namely Government Assistance, Competence, and Commitment (variables X1, X2, X3,) while the dependent variable is the Management of Cooperatives (Y1 variable)) and Cooperative Survivability (Y2). In this research to be tested is how much influence of Government Assistance, Cooperative Identity, Management Competence and Commitment to the Management of Cooperatives, taking into account the characteristics of variables to be tested, the statistical tests used through the calculation of SEM with *Lisrel* application and correlation for the five variables. Tests conducted are to determine the effect of independent variables X1, X2, X3, to Y1 and Y2 either directly or indirectly.

### 3. Research methodology

The method of the study is descriptive and explanatory survey. The type of investigation is causality method while the unit of analysis are individuals, namely the managers of Credit Cooperative Units in Palembang City. The study was conducted by collecting data and information from respondent from empirically selected locations within the study area. The aim was to understand the view of the selected population on the object

under study. According to Jogiyanto (2011), when a model uses more than one dependent variables then the completion of the model using some regression equations would be inaccurate. Therefore, a Structural Equation Modeling (SEM) is needed.

#### 4. Findings and discussions

Based on Figure 1, 2, and 3, it can be concluded that all indicators from exogenous construct: Government Assistance, Competence and Commitment have the loading factor value of >0,5. Ghozali (2008) stated that loading factor is significant when it has  $\geq 0,5$  standard loading factor, showing good *Convergent Validity* rate. Therefore, the dimension and indicators in Model CFA Exogenous Construct are all valid because it has loading factor value of >0,5 and value of *Goodness of fit* complied to *fit*.

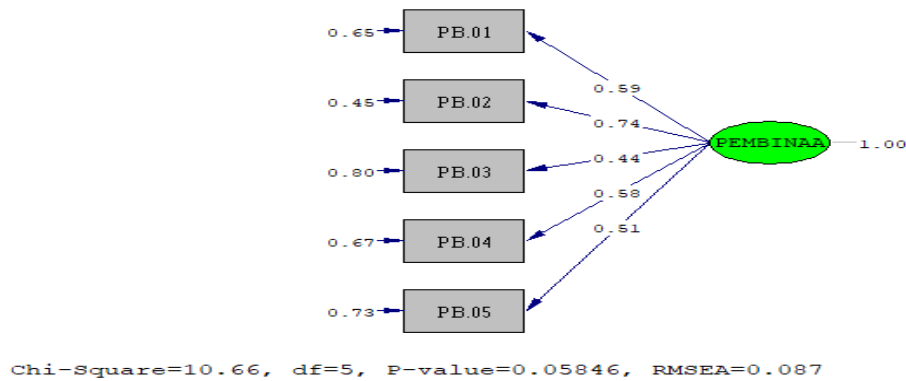


Figure 1. Construct exogen variable of Government Assistance

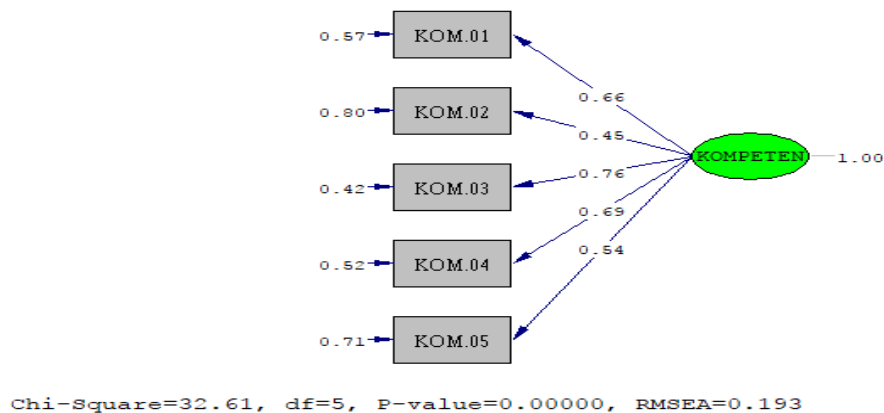


Figure 2. Construct exogen variable of Competence

Based on Figure 4 and 5, it can be concluded that all indicators from endogenous construct: Cooperatives Management Variables and Cooperatives Survivability Variable has loading factor value of > 0,5. Therefore, the

dimension and indicator in Model CFA Endogenous Construct are all valid because it has loading factor value of >0,5 and value of *Goodness of fit* complied to *fit*.

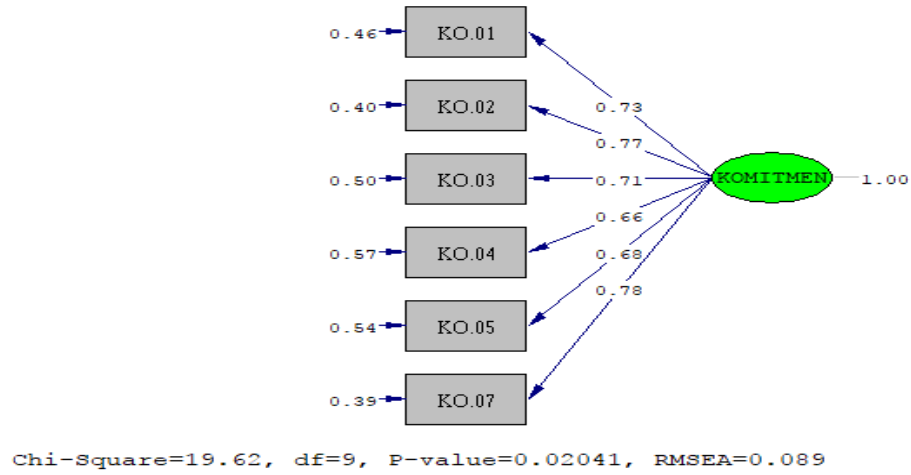


Figure 3. Construct exogen variable of Comitment

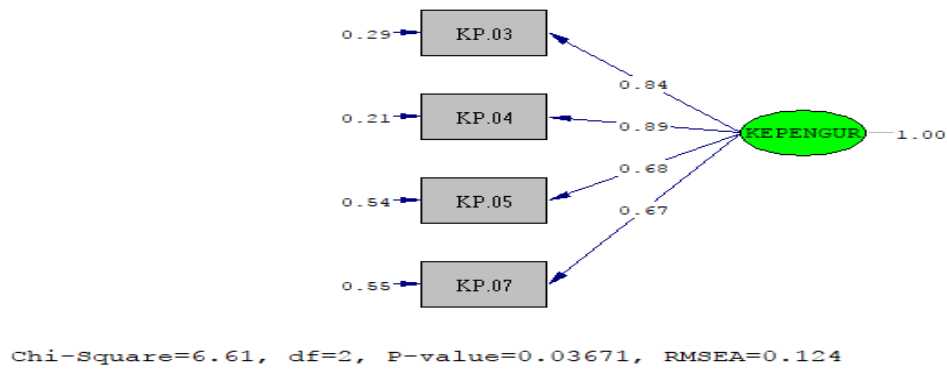


Figure 4. Construct endogen variable of Management

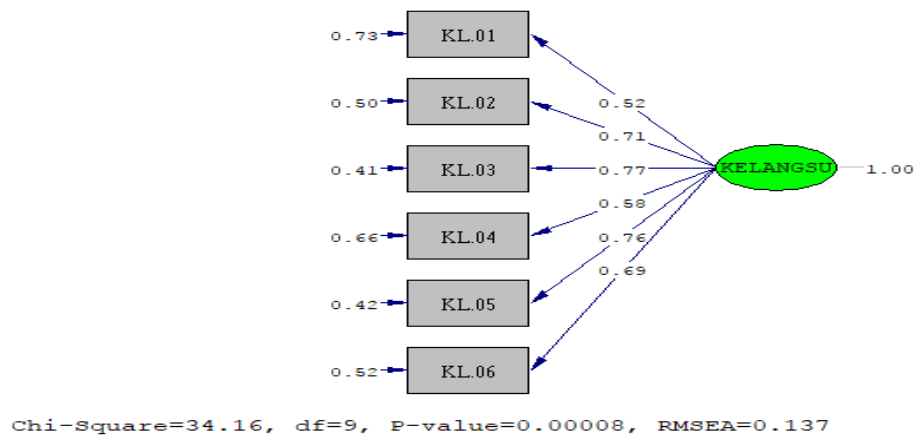


Figure 5. Construct endogen variable of Cooperative's Survival

4.1. Structural Equation Modelling (SEM) Analysis

The next analysis is the Structural Equation Modelling (SEM) analysis. After analysis on the level of un-indimentionality from respective dimension as well as indicators forming latent variable or exogenous or endogenous construct which are tested with Confirmatory Factor Analysis was done, the next step is to do Full Model analysis.

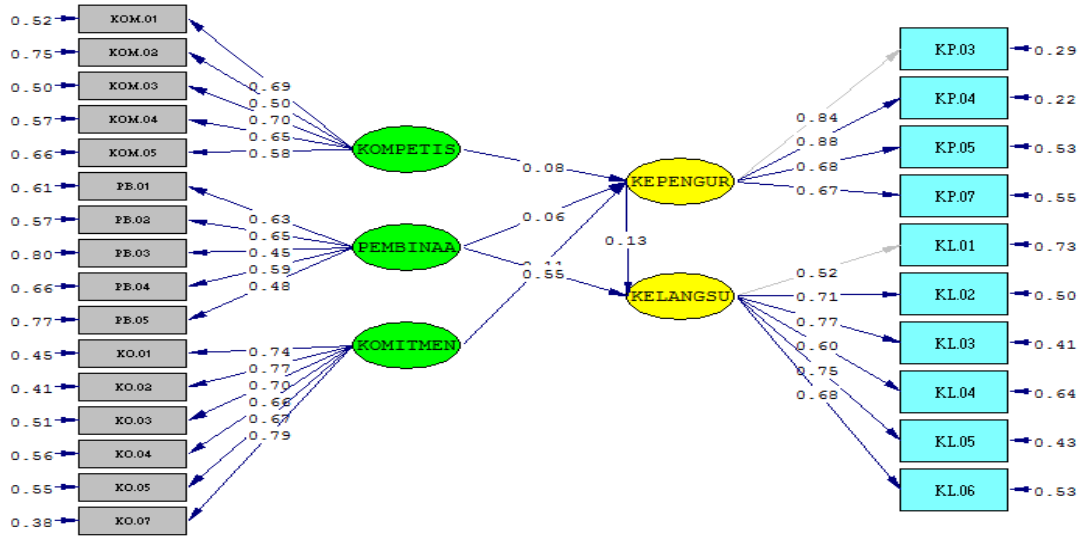


Figure 7. Full Model Coefficient

Full model exogenous construct and endogenous construct Confirmatory factor analysis is shown on Standardized solution Figure 8:

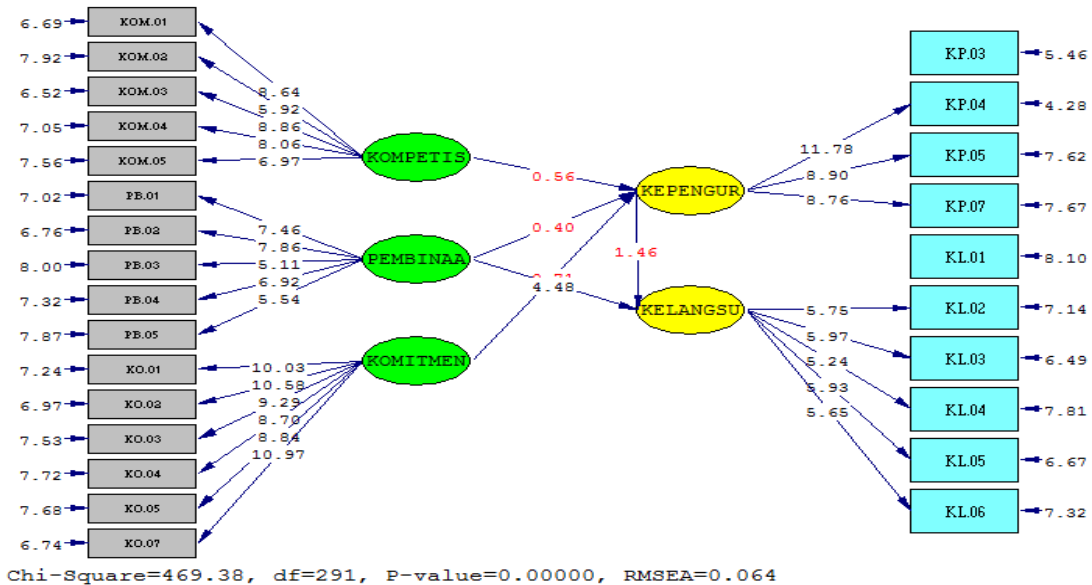


Figure 8. Full Model Standardized Solution



*Sub-structure equation:* Cooperatives Management = 0,06 assistance + 0,08 Competence + 0,55 Commitment

*Structure Equation:* Cooperatives Survivability = 0,06 assistance + 0,08 Competence + 0,55 Commitment + 0,13 Management

#### 4.2. Direct influence, indirect influence and total influence

Analysis on influence aims to show how much influence a variable has to another variable be it directly or indirectly. Interpretation from this result will be significant to decide a clear strategy in order to increase its performance. Based on calculation, direct influence of Government Assistance on Cooperatives Survivability had 0,11 more influence compared to the direct influence on Cooperatives, which is 0,06. Therefore, it can be concluded that Cooperative Management variable is a poor intervening variable. The total influence shows that the influence of Commitment on Cooperatives Management has the biggest value of 0,55 compared to Government Assistance variable and Competence variable. Therefore, it can be concluded from direct influence, indirect influence and total influence, between exogenous variable on endogenous variable in this research that to maintain Cooperatives survivability, it is necessary to maintain mutual agreement and joint commitment among the board, regulatory body, and members of the Cooperative.

### 5. Conclusions

Based on analysis result and statistical examination on the data, the conclusion is as follows: (1) Government Assistance has insignificant positive influence/effect on Cooperative Management as much as 0,06 with t-Test results of  $0,40 < 1,96$ . The Government Assistance influence were supported by Government policy of not interfering or intervening Cooperatives household and business affairs; (2) Government Assistance has insignificant positive influence Cooperatives survivability as much as 0,11 with t-Test results of  $0,30 < 1,96$ ; (3) Competence has insignificant positive influence on Cooperatives Management as much as 0,08 with t-Test result of 0,56 Competence variable influence is supported by the obligation that Cooperatives managers exercise Cooperative's article of association; (4) Commitment has significant positive influence on Cooperative Management as much as 0,55 with t-Test result of 4,48. Commitment influence were supported by managers and members obligation on exercising agreed commitment; (5) Management has insignificant positive influence on Cooperative survivability as much as 0,13 with t-Test value  $1,46 < 1,96$ . The influence is supported by that Cooperative management is expected to live independent.

In an effort to maintain the survival of cooperatives, the role of the government is still needed primarily in an effort to develop human resources of cooperative activists. In an effort to maintain the stability of the performance of the cooperatives the managers must implement a transparent, orderly and measurable financial system. Further, to improve the performance of cooperatives, the role of members must actively participate in developing cooperative businesses. The managers are required to be democratic in spirit, have innovative concepts in developing cooperatives and are responsible for institutional and financial cooperatives. The goal of establishing a cooperative will last a long time, for that the vision and mission of the establishment of cooperatives must run continuously.

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