

## THE PAST, THE PRESENT AND THE FUTURE: FORMULATING A GREAT SHIFTING OF INDONESIAN CO-OPERATIVE

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**Abstract.** Cooperatives play a role in achieving a prosperous economic life in society. However, in Indonesia, cooperatives only contribute a small percentage to the Indonesian GDP. Furthermore, cooperative facing various external and internal challenges today. This paper aims to capture the journey of cooperatives in Indonesia from independence to the present. Furthermore, this paper also introduces several new cooperative models that can be implemented in Indonesia in the future. Data collection was carried out by an extensive literature study of cooperatives' various historical literature at home and abroad. This study finds that during the independence period until the New Order era, producer cooperatives dominated, nowadays, consumer cooperatives and savings and loans dominate. In the future, workers' cooperatives and startup cooperatives can become new development models.

**Keywords:** cooperative, cooperative history, producer cooperative, consumer cooperative, startup cooperative

### 1. Introduction

Cooperatives have been acknowledged as the economic model best suited to Indonesian characteristics. The number of cooperatives in Indonesia is the largest in the world (BPS, 2015). According to the Ministry of Cooperatives (2018), as of January 2018, there were 153,171 cooperative units in Indonesia with 26,54 million active members. Based on the sector, consumer cooperatives dominating with 97,931 units (64.31%), followed by producer cooperatives with 27,871 units (18.30%), savings and loan cooperatives with 19,509 units (12.81%) and other types of cooperatives with 6,971 units (4.57%).

In the world, cooperatives are one of the most popular business models in the world. One of the reasons for the cooperative business model's popularity is that each member has a say in running the business. Chesbrough (2006) defines cooperatives as "autonomous associations of people who voluntarily join together to pursue similar cultural, economic and social needs, manage the aspirations of jointly owned and democratically controlled companies". The many positive elements of cooperatives make cooperatives an attractive business model.

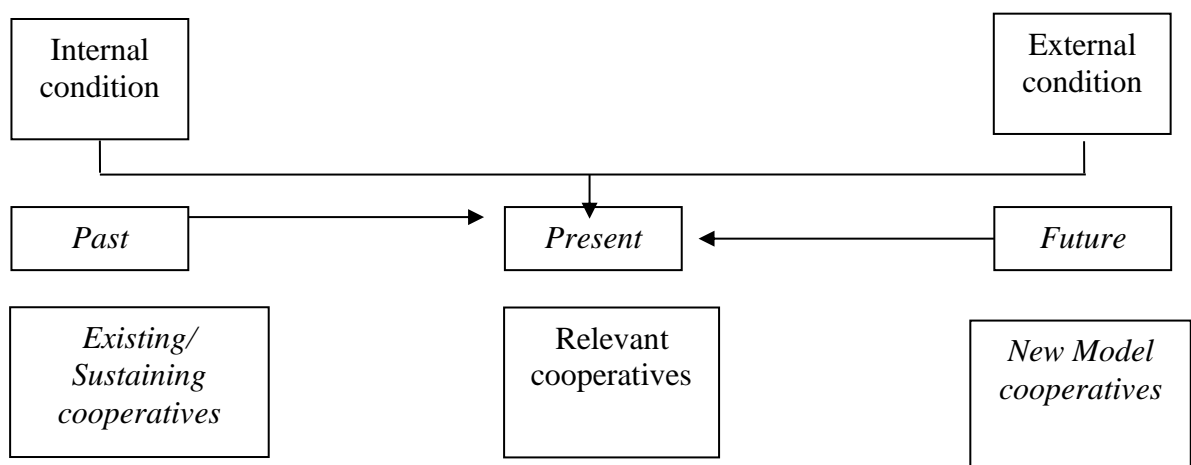
Today, the business environment is becoming very competitive, which can be seen from the number of new companies appearing every day, where many companies compete to meet the increasingly vast and varied needs of consumers. Disruption of innovation, for example, becomes an inevitable challenge where society, the business world, including cooperatives and governments around the world should have a strategy to deal with it.

This paper aims to capture the past, present and future development of cooperatives. The implication is that decision-makers can predict or design the future of cooperatives in Indonesia by knowing the pattern of cooperative development.

## II. Literature Review

This paper uses the theoretical framework of The Three-Box Solution (Govindarajan, 2016). In this theory, there are three time zones; past (past), present (present) and future (future). These three time zones need to be used to run its current business activities well (high-performing business), but can still make innovations to create the desired future.

In cooperatives, there are current/sustaining models dominated by consumer cooperatives, production cooperatives, and savings and loan cooperatives. The current models are a continuation of the cooperative in the past. While technology and other external factors encourage cooperatives to explore the future and bring it to the present day, new models such as startup/platform cooperatives, workers' cooperatives, social cooperatives and other types of cooperatives have emerged, which may grow and match the needs of the Indonesian people.



**Figure 1.** Research Frameworks based on Three-Box Solution Theory

### **III. Research Method**

The descriptive method can be interpreted as a problem-solving procedure that is investigated by describing the subject's condition or object in the study which can be people, institutions, society and others who are currently based on visible or what they are. According to Whitney (1960: 160), the descriptive method is a method of examining the status of a group of people, an object, a set of conditions, a system of thought or a class of events in the present. This descriptive study aims to make descriptions, descriptions or paintings systematically, factually and accurately regarding the facts, characteristics, and relationships between the phenomena being investigated. According to Sugiyono (2005: 21), the descriptive method is a method used to describe or analyze a research result but is not used to make broader conclusions. Descriptive method is fact-finding with the correct interpretation. It can be said that descriptive research attempts to describe a symptom, an event that occurs at the moment or an actual problem (Whitney, 1960).

This study uses library data collection methods/literature which is an activity to observe various literature related to the subject matter raised in the form of books, papers or writings that are helpful so that they can be used as guidelines in the research process. According to Sugiyono (2005), library research aims to collect data and information with the help of various materials available in the library; the results are used as an essential function and the primary tool for research practice in the field.

### **IV. Discussion**

The history of cooperatives' development is a series of events that can be valuable lessons for anyone who wants to learn about cooperatives. By knowing its history, we will get an overview of what steps this nation has taken to develop cooperatives to prepare strategic steps towards the future then. In-depth historical analysis can be a guide to minimize mistakes in the past and at the same time revitalize a policy framework that has been carried out in the past by considering the context of the times.

#### **The Past**

The milestone in the cooperatives' journey after Indonesia's independence was marked by the inclusion of cooperatives in the formulation of the Constitution, to be particular article 33 of the 1945 Constitution, by one of the Proclaimers,

Mohammad Hatta. This law is undoubtedly a new hope for the continued growth of cooperatives in Indonesia. Two years after Indonesia declared its independence by reading the text of the proclamation, the cooperative movement held cooperatives throughout Java which became known as the First Congress of Cooperatives in Tasikmalaya. However, a year later, the cooperative movement encountered obstacles with the PKI rebellion in Madiun and the emergence of military aggression I and II from the Netherlands.

Only after 1950 did the cooperative movement regain its momentum. The ranks of the cabinet that were drawn up after that took turns in supporting the cooperative movement. Starting from Mohammad Natsir, Wilopo, Ali Sastroamidjojo, openly listed cooperatives as the mainstay of national economic development. Besides, the government also wanted to provide support for community businesses using capital incentives provided through containers in the form of granaries and village banks, which as much as possible were cooperatives (Sumodjiwiryo, 1954). To provide a clearer picture of the growth of cooperatives before Indonesia's independence and afterwards, the following is a table of cooperative growth:

**Table 1.** Cooperative Development in 1940-1959

Type	Year	Total Coop	Total Member	Total Saving
Credit Cooperative	1940	478	41.308	Rp 246.000
	1956	4.545	624.489	Rp 102.299.000
	1957	4.269	622.049	Rp 121.200.000
	1958	5.526	689.220	Rp 171.804.000
	1959	6.095	756.634	Rp 223.018.000
Producer Cooperative	1940	43	1.973	Rp 11.000
	1956	1.349	144.524	Rp 112.640.000
	1957	1.213	111.815	Rp 152.903.000
	1958	2.048	168.321	Rp 280.167.000
	1959	1.216	139063	Rp 388.552.000
Consumption Cooperative	1940	23	640	Rp 3.000

1956	840	124.811	Rp 18.781.000
1957	625	85.371	Rp 13.031.000
1958	805	113.067	Rp 19.440.000
1959	1.935	244.137	Rp 47.391.000

*Source: Statistical Pocketbook of Indonesia, 1961*

A new chapter of the cooperative journey began in the New Order era. During President Soeharto's leadership, many changes occurred in the government body (cooperative officials) and the direction of the cooperative movement itself. The most obvious step is the replacement of Law no. 14 of 1965 with Law no. 12 of 1967. The replacement is based on the considerations that complement Law no. 12/1967, was carried out because the previous law was deemed intended to place cooperatives as a political tool and therefore made cooperatives incompatible with their original spirit: as a forum for the people's economic struggle. In the New Order era, cooperatives were positioned as a tool for society to improve their economic welfare, even though the government did not let go of cooperatives in their people's consciousness.

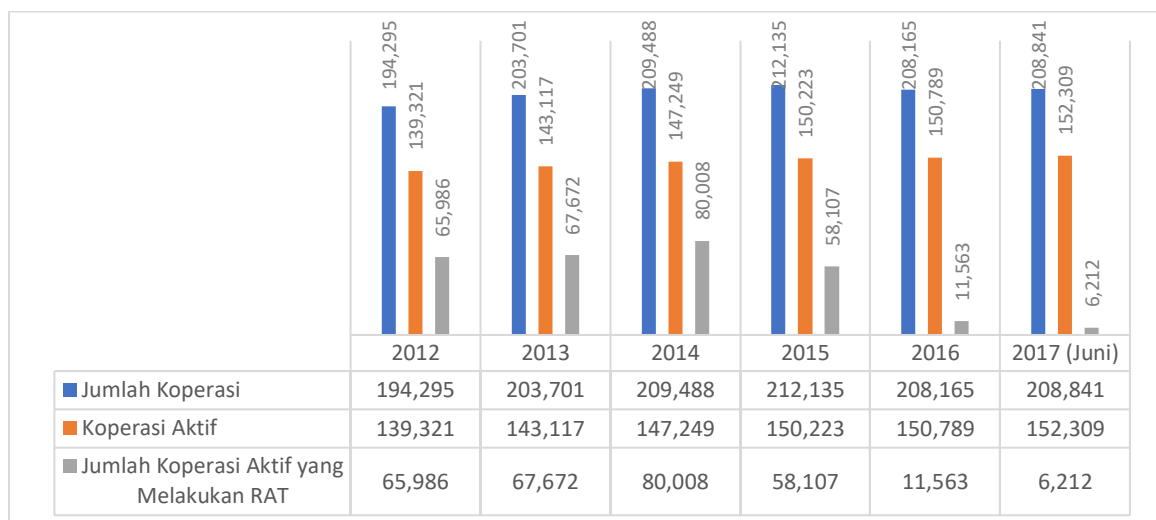
This can be seen from the formation of Cooperative Education Centers at the national and regional levels. Today the cooperative education centre is the PUSLATPENKOP (Training Center for Cooperatives) at the national and BALATKOP (Cooperative Training Center) at the regional level. On the other hand, Law no. 12/1967 made cooperatives adjust to the new regulations. As a result of these adjustments, from 65,000 cooperatives, it shrank to only 15,000 thousand (Masngudi, 1990). Moreover, the number of cooperatives that survive is dominated by village unit cooperatives in the agricultural sector and credit cooperatives in financial services.

## **The Present**

Today, the number of active cooperatives in Indonesia according to data from the Ministry of Cooperatives (2018) reaches 150,223 cooperatives with the number of SHU distributed nationally. 1,732,066,392,000. Of that number, the ones that dominate are consumption cooperatives with 97,931 units. Meanwhile, savings and loan cooperatives reached 19,509 units, service cooperatives 3,661 units, marketing cooperatives 3,310 units, and the rest were producer cooperatives. Of all the cooperatives, they can absorb 37,783,160 members, 537,234 employees, and 37,217 cooperative managers. In other words, 574,451 people are working in the cooperative. So, we can conclude that the ratio between the cooperative members and the number of members who work in the cooperative is 1:66.

With today's conditions in which consumption sector cooperatives dominate cooperatives in Indonesia, it certainly makes their leverage on members' welfare still low. Based on data from the Ministry of Cooperatives (2018), we can roughly calculate that if the amount of SHU nationally is distributed to all cooperative members as reported by the Ministry of Cooperatives (2018), the average member will only get Rp. 45,842 per year. Of course, this figure is still very far from being prosperous. So that practically the day that gets good economic benefits from the cooperative's presence is only the administrators and managers.

For this reason, innovation is needed, both the diversification of the form of cooperatives and strengthening regulations so that members — and not only management — get good economic benefits from the presence of cooperatives. Apart from the number of members and SHU, one indicator of an active cooperative is implementing the Annual Member Meeting (RAT) regularly. The following is data regarding the trend of cooperative RATs from year to year:



**Figure 2.** Cooperative Number, Active Cooperative, and Cooperative conducted RAT

Source: Kemenkop UKM, 2018

The data above illustrates that active cooperatives' development is relatively stagnant as seen from the trend between 2012-2017. Meanwhile, the number of active cooperatives conducting RAT looks fluctuating and tends to decline from 2012-2017. On the other hand, there are three criteria for assessing cooperative performance: (1) Healthy organization to implement the RAT on time. (2) Healthy capital, seen from the performance graph of cooperative capital (3) Healthy business, regular performance success associated with achieving performance

goals (Marpaung, 2014). In 2018, the number of active cooperatives increased to 152,714 cooperatives.

RAT is a form of communication and member control strategy so that if the RAT is not implemented, these points are not met. Besides, within the RAT is also a transparency medium for management to members. A RAT will discuss cooperative policies, including disclosure of cooperative financial statements. If the RAT is not implemented, the information needed by members such as information in financial reports is also not published. RAT will also discuss what policies or strategies the cooperative will undertake in the future; if the RAT is not carried out, it means that the management's future orientation is also still in question.

## **The Future**

### **Startup Cooperative**

One of the new cooperative business models is a cooperative startup. In Indonesia, cooperative startups are not yet commonplace, but that does not mean it is impossible. If appropriately managed, startups can become a business model that may be more profitable than existing large companies with standard business models (Desrochers and Fischer, 2005).

Startup refers to a small and young company that is just starting its operations. These companies usually offer new services or products that are not currently on the market or products offered in a smaller market. Sometimes they are considered to have fewer income sources, and investing in them is usually considered a significant risk (Downing, Volk and Schmidt, 2015). However, not a few startups have developed into businesses with large revenues.

Startups come in a wide variety of types, most of which are classified according to the domain in which they operate. Different types of Startups have different target customers due to the diverse nature of the services offered. These types include (Downing, Volk and Schmidt, 2015); small businesses such as franchises, lifestyle businesses (for example, financial services consulting, other services), scalable startups that require substantial outside investment, startup acquisition targets (startups that are built to be sold to larger companies), and social startups.

One possible business model for startups to adopt is the cooperative model. Cooperatives have several advantages over individual companies or partnerships, especially concerning ownership. If people can become business owners, why just become customers? Cooperatives have many interesting elements that facilitate the needs of all stakeholders. Both employees, suppliers, consumers, and the local community can benefit from the cooperative model. When referring back to the

innovation disruption theory proposed by Christensen (2006) and Nagy et al., (2016), the startup cooperative platform makes much sense. Startup cooperatives can fulfil one to three characteristics of innovation disruption: radical function, discontinuity of technical standards or proprietary innovation.

The startup cooperative is also able to show innovation in ownership. The cooperative principle regarding ownership by members makes all members have the same rights and become the business's legal owner. Like open-source, every member can contribute and become a business owner and play a role in every decision making. Here, cooperative startups allow more significant support to small business groups, bringing producers and consumers together on a fairer and more sustainable business platform. Cooperative startups can cut, substitute and even wholly eliminate long, unfair and ineffective business chains. At a higher level, startup cooperatives can also create radical functional innovations by creating new markets that are more profitable and equal, and innovating with cheaper and more affordable technology and business processes.

### **Workers Cooperative**

Apart from the Startup Cooperatives, another new type of cooperative currently developing is the Workers' Cooperative. A workers' cooperative is a cooperative that their employees own; they hold at least 51% of the shares and 65% of the voting rights. These cooperatives are present in all industries and compete with traditional companies. They have the same constraints as their non-cooperative competitors because they also have to be profitable to be sustainable (Stervino et al., 2015).

A workers' cooperative concept is entirely different from the cooperative for company employees or government offices such as those in Indonesia. Furthermore, the workers' cooperative is a group of people who work together in a particular sector to form a cooperative. Workers' cooperatives operate in certain industries and have specific goals. According to CICOPA/ICA, workers' cooperatives have the goal of creating and maintaining sustainable and wealth-generating jobs, in order to improve the quality of life of worker members, respect human work, create independent and democratic management and support local communities and development (CICOPA/ICA, 2005).

Why are workers' cooperatives an innovative new type of cooperative? Workers' cooperatives provide an alternative to survive in a fragile financial world. Since the recent global financial crisis, worker cooperatives have been recognized as more resilient in times of crisis than their traditional non-cooperative competitors (CICOPA, 2013). In France, this renewed interest in worker cooperatives led to new legislation in 2013, promoting this corporate model based on democratic



governance. It is certainly an interesting note that cooperatives, in this case, workers' cooperatives, are a business model that is resilient to crisis.

## V. Conclusion

Cooperatives in Indonesia have long been acknowledged as the most suitable economy model of the national economy. However, its contribution to the Indonesian economy has not been significant. This paper seeks to capture the past, present, and predictable journey of Indonesian cooperatives. At the beginning of its establishment, Indonesian cooperatives were dominated by production cooperatives, for example, the village unit cooperative. At present, cooperatives in Indonesia are dominated by savings and loan cooperatives. In the future, with the opportunity for the demographic bonus that Indonesia has and the accelerated use of technology, there will be new forms of cooperatives that will develop such as workers' cooperatives and startup cooperatives. Future research can focus on the transformation process of cooperatives in Indonesia, besides that it will be interesting to examine the growth of new types of cooperatives in Indonesia.

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