

# COOPERATIVES IN THE INDONESIAN CONSTITUTION AND THE ROLE IN EMPOWERING MEMBERS: A CASE STUDY

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## ABSTRACT

*In Indonesia, cooperatives are the only body specifically referred to in the national constitution. In one of the most well-known articles in the constitution, namely Article 33 of the 1945 Constitution, it is stated that the national economy is structured as a joint effort based on the principle of kinship. The business entity of cooperatives is established to promote the welfare of members in particular and society in general as well as to help build national economic order in order to realize an advanced, equitable, and prosperous society, based on sharing ideals and goals. This study henceforth aims to explore the extent to which the cooperatives are able to strengthen the solidity and solidarity between members. This study was conducted as a case study in a weaving crafts cluster in Northern Central Java, exactly in Jepara Regency, that has a unique characteristic of batik. Moreover, the other originality of this study lies in its consideration on cooperatives which members are from Small and Medium Enterprises (SMES) owners. Thus, the cooperatives also function an association for the members. The result of the study showed that the cooperative of Troso weaving association should design a development model of Troso Weaving SMEE through some stages. The stages include reorganizing the cooperative in terms of its administration, cooperative organs, member and official's awareness as well as the accompaniment from stakeholders, especially government and university as the manifestation of triple helix concept of university-industry-government relationships.*

**Keywords:** Cooperatives Goals, Development Model, Case Studies.

## INTRODUCTION

In Indonesia, cooperatives are the only body specifically referred to in the national constitution (Sugarda, 2016). In one of the most well-known articles in the constitution, namely Article 33 of the 1945 Constitution, it is stated that the national economy is structured as a joint effort based on the principle of kinship (Subroto, 2015). The principle of kinship which is explicitly stated in this article indirectly refers to the cooperative. This family principle reflects the close relationship between members of the cooperative. The business entity of cooperatives is established to promote the welfare of members in particular and society in general as well as to help build national economic order in order to realize an advanced, equitable, and prosperous society, based on Pancasila and the Constitution of 1945 (Chotijah, 2015). Developing cooperative needs the implementation of other cooperative principles of cooperative education and cooperation among cooperatives. An enterprise of cooperative is a business entity that is recommended by the Constitution of 1945 as a business entity that is suitable for Indonesia, because the cooperative is a business entity which is based on kinship principle. Referring to Article 1 of Act No. 25 of 1992 on Cooperatives, it is stated that cooperative is a business entity

consisting of individuals or legal entities basing its activities on the principle of Cooperative people's economic movement based on family principles (Hadiz, 2004).

Cooperatives have received a lot of attention from economists, and social scientists in relation to the different characteristics that are different from other forms of business in enabling members' economies collectively by being based on solidarity and cooperation. To explore to the extent to which the cooperatives are able to strengthen the solidity and solidarity between members, this study was conducted in a batik weaving cluster in Northern Central Java, exactly in Jepara Regency, that has a unique characteristics of batik weaving. The cluster is largely known as Troso, that also functions as an independent village with numerous craftsmen of weaving. Since 2008, Troso in Jepara regency has established a cooperative namely Cooperative of Troso Weaving Association whose members consist of the weavers in Troso village, the subdistrict of Troso, Jepara Regency. The potential of its new members is great as the number of Troso entrepreneurs in the Troso village has reached as many as 253 micro, small and medium enterprises. Until now, the Cooperative of Troso Weaving Association which was established under the Legal Entity number 518/1921/BH/XIV.10/IV/2008 has been more or less 7 (seven) years old, but the signs to realize the objectives of the cooperative have not appeared or could even be said to be still far away. The problems that arise and need to get a solution is (1) why the business run by Troso Weaving Cooperative Society cannot yet realize its objectives; (2) how the model should be built/developed by the cooperative in developing the SMEs that belong to the members of the Cooperative of Troso Weaving Association.

Given the importance of this body, cooperatives continue to grow rapidly along with their abilities which are considered to be able to prosper the economic capacity of members by adhering to the principle of brotherhood and solidarity. This paper attempts to analyze cooperative arrangements in the Indonesian constitution. Such objectives are certainly very common and tend to be normative in law and regulation, so this study takes case studies of efforts made by cooperatives in enabling its members. This case study is the originality of this paper, while at the same time extending the real meaning of the normative rules of law in real life. Here, there are at least two newnesses of this study, namely the case study for empirical testing of constitutional regulations, and its efforts that attempt to derive normative law to more empirical conditions.

### **Cooperatives Business and Realization the Cooperatives Goals**

A cooperative is an economic organization that is owned and operated by people for the common good. Of the various types of cooperatives, cooperatives focusing on SMEs are one type that focuses on empowering members through financial and marketing assistance and coordination among members (Henley & Boomgaard, 2009; Henley, 2007). Cooperatives are very closely related to the empowerment of small and medium enterprises, given that their establishment and ownership are at the initiative of individual members, many of which are lower and middle groups, and are based on ownership by these members (Suradisastra, 2006). Therefore, the mission and activities of cooperatives are mostly focused on SME financing and entrepreneurship (Baga, 2013). Empirically, some literature has highlighted the role of cooperatives in financing and increasing the capacity of SMEs in Indonesia (Sudaryanto & Wijayanti, 2013). Tedjasuksmana (2014) emphasizes that the growth of SMEs will be related to financing from cooperatives. Furthermore, because basic cooperatives are in solidarity, cooperation and coordination between members is in order to improve their innovation and creativity in developing business (Najib & Kiminami, 2011; Susanty et al., 2017).

The objectives can be realized if the cooperative is based on the principle of kinship and develop it by carrying out cooperative principles. Article 5 of Cooperative Act asserts that there are cooperative principles that need to be implemented in running the cooperative business are:

1. The voluntary and open membership;
2. The management is conducted democratically;
3. The distribution of the business revenue residue is conducted in a fair proportion equal to the business services of each member;
4. The remuneration awarding which is limited to capital;
5. Self-reliance.

The purpose of the first cooperative principle, i.e., the open membership implies that a member of cooperative should not be forced by anyone. The voluntary nature also implies that a member may resign as the member of cooperative in accordance with the terms determined in the Statute of Cooperative, while the openness nature means that in its membership, there is no restriction or discrimination in any form. The openness of cooperative is line with the first principle in good corporate governance (GCG) that is transparency.

The second principle (democracy) shows that cooperative management is done on the willingness and decision of the members. Cooperative is run by members, from the members and for the members. The members are the ones who are holding and implementing the highest authority in the cooperative. The third principle, i.e., the distribution of the business revenue to the members shall not be solely based on the capital owned by a person in the cooperative but also by the balance of business services of the members to towards the cooperative. If a member has many deposits and at the same time actively take advantage of the services provided by the cooperative, meaning that members have a lot of services to the cooperative, then the remuneration will be more. Such provision is an embodiment of family values and justice.

The fourth principle is the capital in the cooperative is basically used for the benefit of its members and not for just making a profit. Therefore, the remuneration of the capital provided to the members is also limited, and not solely based on the amount of capital given. The fifth principle that must be implemented by cooperative is self-reliance. Self-Reliance implies that it can stand on its own, without depending on other parties, based on its own beliefs, decisions, ability, and business. In self-reliance, it is also contained independence in responsibility, autonomy, self-help, brave to be responsible for one's own deed, and willingness of self-management. In addition to the five principles above, to develop cooperatives, it must also be implemented the principle of cooperative education and cooperation among cooperatives. The implementation of cooperative education and cooperation among cooperatives is important for improving the ability, broadening members' knowledge, and strengthening solidarity in realizing the objectives of the cooperatives. The cooperation among cooperatives can be done at the local, regional, national, and international level.

## **RESULTS AND DISCUSSION**

### **Cooperatives for Small and Medium Enterprises**

In order to discuss how important the cooperatives are for SMEs, this study would like to firstly brief the objectives and goals of cooperatives in Troso village in northern Central Java. To achieve the above objectives, the Cooperative of Troso weaving association runs several business field such as unit of sales of weaving raw materials, weaving products and promotion of

weaving products, unit of sales of motorcycle and car's spare parts, unit of general trading, unit of selling and buying of motorcycles, unit of services for extending vehicle registration, unit of convection services, unit of furniture, unit of savings and loans as an autonomous unit, unit of motor vehicle's repair shop, and unit of sales of stationery and photocopying.

The objective of the establishment of cooperative is to realize the welfare of members in particular and society in general. More specifically for the study object, the objectives of the establishment of the Cooperative of Troso Weaving Association, as explained in article 4 of its statute are for:

1. Up-grading the welfare of members in particular and society in general, and to promote national economic order in order to realize a just and prosperous society based on Pancasila and the Constitution of 1945.
2. Fostering members to improve the quality as human beings.
3. Improving the quality level of human resources in cooperatives.

Sunarto, as chairman of the Cooperative of Troso Weaving Association stated that Troso Jepara Cooperative Society runs the business units of savings and loans to members. Savings and loan business which is the only unit of business run by the cooperative has not yet been able to meet the expectations of the members. This is due to the lack of participation of the members to increase and accumulate capital (see also for the discussion of capital acquisition in cooperatives in Sedana et al., 2014). The lack of participation of the members is caused by their own business activities, but the main one is because of participation of Troso businessmen to be the members of the cooperative association is not due to a voluntary commitment, but because of the encouragement of others forcing them to become members of the cooperative. They become a member of the cooperative for local government programs, so that the level of awareness of members of the cooperative is only about 5% (five percent). Another thing that causes the underdevelopment of the Cooperative of Troso Weaving Association is the less allocation of time of its officials to manage the cooperative well. The cooperative principles that should have been run are not yet implemented by the association. In the explanation of Article 5 of Act of Cooperatives explained that the principle of cooperative is an integral and inseparable in the life of cooperative. By implementing the overall principles, the cooperative manifests itself as a business entity as well as people's economic movement which has social character.

The voluntary nature of membership in the cooperative means that a member of the cooperative should not be forced by anyone. The voluntary nature also implies that a member may resign from the cooperative in accordance with the terms specified in the Statute. The open nature means that the membership is not subject to restriction or discrimination in any form. In the Cooperative of Troso Weaving Association, the voluntary nature is considered not yet being implemented because at the time of its establishment, they become members of the cooperative on the basis of encouragement and the demand of the local government. Encouragement of local government to the people to be members of a cooperative is one of the duties in the context of realizing the State's objective, i.e. to bring all the people to prosperity. The encouragement was done in order to comply with Article 60 of Act on Cooperatives, stating that:

1. The Government creates and develops the climate and the conditions that encourage growth and Cooperative publication.
2. The government shall provide guidance, convenience and protection to the Cooperative.

The government needs to give an understanding of the importance of enterprises in form of cooperative, as the essential precondition for the growth of the cooperative is an open

membership and volunteerism so that the participation of members to develop and promote cooperative can be realized (Suroto, 2011). The member's awareness will be the cooperative capital to go professionally. Next is about the democratic principle which indicates that cooperative management is done by the will and decision of the members. The members are the ones who are holding and implementing the highest authority in the Cooperatives.

To be seen from the principles of democracy, the Cooperative Association has been running its business on the will and decision of the the members' convention at the Annual Meeting of Members (AMM). The Annual Meeting of Members holds the highest authority in Cooperative, which must be implemented by the Officials and Supervisor of the Cooperative. The distribution of business revenue residue to the members is not solely based on the capital owned by a person in the cooperative but also by the balance of business services dedicated by the members to the Cooperative. The arrangement of the amount of distributions to the members and the type as well as the amount of other needs, is determined by the Meeting of Members. A cooperative can also distribute a portion of patronage based income as cash patronage and retain the remainder as unallocated reserves (Kenkel, 2015).

Such provision is an embodiment of family values and justice. To be seen from the principle of distribution of the business revenue residues to members, this association is regarded as having implemented it, but owing to the less effective implementation of the business of savings and loans run less effective so the business revenue residue is very little, as a consequence it has not been distributed to the members. Even the officials of the association personally often have to spend his own money to carry out one of the cooperative's activities for example in order to follow the activities organized by third parties (eg, government programs) which requires the participation of the cooperative association. These activities are carried out in order to promote Troso woven products produced by members of the cooperative association, so this activity is also an embodiment of the family values if these activities have a positive impact it also will give positive impact on all members of the cooperative.

The capital of cooperative is derived from independent capital and loan capital, which is basically used for the benefit of its members and not just for making a profit. Therefore, the remuneration of the capital provided to the members is also limited, and not based solely on the amount of capital provided. In the perspective of the principle of capital in a cooperative, the capital in the association has been basically used for the benefit of the members so that the profit is not the main goal. The capital which purely comes from the cooperative member is taken from basic savings, compulsory savings and voluntary savings. The basic savings represent deposits of a sum of money that is required to be submitted by the members to the cooperative at the time of their entry, which is the same amount for all members and cannot be taken as long as still being a member and used to bear the loss. The compulsory savings deposits are required to pay on the cooperative's members at a specific time and bear the losses. Voluntary savings is the savings of the members which is determined based on the contract or special legislation. The capital of the Cooperative of Troso Weaving Association is still limited to the savings of members, whereas the cooperative can make use of external funds such as funds of the banking and non-bank financial institutions. In addition, the cooperative could also have other income sources, i.e. from reserved funds and grants. The loan capital can be derived from the members, other cooperatives an/or its members; banks and other financial institutions; the issuance of bonds and other debt securities and other legitimate sources. Cooperatives can also make capital accumulation derived from capital investments.

Loans from other cooperatives and/or members is based on the agreement of cooperation between cooperatives. Loans from banks and other financial institutions is carried out under the

provisions of the legislation applied. The issuance of bonds and other debt securities is conducted under the provisions of the legislation applied. Other legitimate sources are loans from non-members who do not get it through public bidding. The capital accumulation is from capital investments, either from the government or the community carried out in order to strengthen the business activities of the cooperative. Until now, the cooperative of Troso weaving association has never distributed the business revenue residue from capital invested by the members. This is because the business revenue residue is very little. Even many activities undertaken on behalf of the cooperative is funded by the officials personally since if it is charged to the cooperative, it will suffer losses. Self-reliance implies the ability to stand on its own, without relying on other parties but based on its own beliefs, decisions, ability, and effort. Self-reliance also contains the sense freedom in responsibility, autonomy, self-help, brave to account for one's own deed, and passion to manage oneself.

### **Cooperation and Solidarity to Foster Self-Capacity**

The efforts made by the cooperative officials in realizing the objectives of the cooperative is to encourage the members of the cooperative to do investment through savings which will then be used by other members who lack of capital or funds in running their own weaving business. The cooperative through its officials also seek to involve members or officials to participate in education organized by the government. A cooperative may pursue several objectives at the same time. For example, a cooperative may attempt to earn a certain level of net income, maximize operating efficiency, maintain and expand its facilities, and increase its sales volume (Royer, 2014). Thus, the nature of the cooperative is still static in implementing cooperative education, since it has never organized its own education for its members, so that the knowledge and understanding of the importance of the existence of cooperative is not owned by the members. The efforts undertaken by the cooperative officials is appropriate and as it supposed to be, because members serve as the owners and users of the cooperative's services, so the members should participate actively in the activities of the cooperative. As long as not causing any harms, the cooperative can also provide services to non-members in accordance with the nature of its business activities, in order to attract non-members to become members of the cooperative. The principle of cooperation among cooperatives has not been implemented by the Cooperative of Troso Weaving Association. The participation of universities in developing the cooperative is then very much necessary. The team of researchers from the Universitas Muria Kudus tries to help the association to conduct cooperations with other cooperatives especially those which provide raw weaving materials. Besides, the team also seeks to establish cooperation with other cooperatives to market its Troso woven products produced by the members of the Cooperative of Troso Weaving Association.

### **Manifestation of Triple Helix to Improve the Cooperatives Role**

It has been previously presented that the fundamental point to be considered so as to develop and promote the common welfare of the cooperative's members is the principle of voluntarism, no coercion, deception or mistake. If the members' entry or joining in the cooperative is done by force, fraud or mistake, it can be said that the contract is stated to have no agreement, so the validity terms of the agreement are not met, and as a consequence the agreement could finally be canceled. Membership in the Cooperative of Troso Weaving Association is mostly not based on volunteerism, but more due to the encouragement and

requests from outside parties, i.e. local government. The Encouragement or request from the local government is in order to help the Troso weaving employers to be more developed and in turn to be able to bring prosperity to Troso weavers, especially those who are willing to be the members of the cooperative. These expectations of the local government were submitted to the Troso weavers so as to be willing to become the cooperative members and eventually could help realizing the cooperative's objectives.

The above mentioned type of membership has resulted in a situation in which the cooperative members have less response and sense of belonging, so the concern of developing and raising the cooperatives do not exist among members because their membership is forced. This membership mindset needs to be changed so that the members joining in the cooperative become the members of cooperative by necessity. The members should be aware that in facing the free competition, cooperation among the cooperative members is highly needed so that all members can work together to achieve the common goals/objectives. The awareness of running the cooperative should be developed in order to avoid the feeling of being forced in the cooperative activities. It can be grown through several activities such as mentoring or training routinely performed by the government or academic institutions. The cooperative will also be more quickly developed and progressive if the membership is open, meaning that no restrictions to become a member, though they still have to comply with the terms in the statutes and bylaws. By the increasing number of members, the capital will also increase in size, so the opportunity to develop and advance the Cooperative of Troso Weaving Association will also be widely open.

Some programs that need to be done to empower cooperatives are (Ministry of Cooperatives and Small and Medium Enterprises of the Republic of Indonesia, 2012):

1. Credit facilities or bank financing and supported by cooperation with financial institutions or other financing;
2. Services of credit or other financing from non-bank financial institutions, such as Saving and Loan Cooperative (SLC), Sharia Finance Service Cooperative (SFSC), venture capital enterprise, factoring, leasing;
3. Improving institutional capacity and quality of service of the Micro Finance Institute (MFI); and the revitalization of education, training and counseling for members of cooperatives and cooperative managers, as well as potential members and cadres of cooperatives.

The other programs that need to be done to empower cooperatives so that it can quickly realized their objectives (as suggested by the Bali Provincial Government's Agency of Small, Micro and Medium Enterprises) are:

1. The program of improving the quality and dissemination of information on programs for creating cooperative climate of business;
2. Program of development on entrepreneurship and competitive advantage of the cooperative;
3. program of development on support system for cooperative's business;
4. quality improvement program on cooperative institutions.

The real activities which are necessarily done towards cooperatives so as to meet the expectations of the 1945 Constitution, in which cooperative serves as the pillar of the national economy are:

1. Education and training in cooperative management;
2. Education and training in order to increase the competence of supervisors, officers, and managers of cooperatives;
3. To promote cooperative products both locally, nationally and globally;

4. Assistance for strengthening of the cooperative;
5. Development on information system of cooperative improvement planning;
6. Development and strengthening of cooperative institutions;
7. Monitoring and evaluation on cooperatives which is periodically scheduled;
8. Improvement and development on the networking of cooperative business cooperation, either among cooperatives, bank financial institution, or non-bank financial institutions;
9. Deployment of models for cooperative development and leadership. Expectations to realize cooperative as the pillar of the national economy as reflected in the 1945 Constitution should lead to a professional cooperative management through human resources planning, organizing, directing and controlling.

By such a cooperative management, the cooperative will be able to run effectively and efficiently. The above programs and activities are in line with the government's duty to empower the cooperative, that is to provide broad access to cooperative such as:

1. Providing business opportunities to Cooperative as widely as it can be;
2. Improving and strengthening the ability of cooperatives to become healthy, strong, and independent cooperatives;
3. Promoting a mutually beneficial business relationship between cooperative and other enterprises;
4. Enhancing the culture of cooperative among society.

Cooperative business should be focused on business sectors that are directly related to the interests of cooperative members to support their business and welfare. In order for cooperative to be able to realize its functions and roles, it is recommended that it conduct business in all areas of economic life and play a major role in the economic life of the society, which means all economic activities conducted and are related to the public interest. The efforts done to raise the cooperative mindset awareness in the community, can be done through such activities as socialization, information dissemination, publication and guidance to enterprise groups in society to be directed to be Cooperative. Education activities are also conducted by the college through mentoring activities to groups of people who have field of business or employment in common. To bring the efforts to success, the management of Cooperative's business should be done productively, effectively, and efficiently which means that cooperative must have the ability to realize the business services that can increase the value and benefits as much as possible on members while considering to acquire the reasonable business revenue residue. To achieve such business capabilities, then the Cooperative can try various types of business flexibly. In order to provide guidance and facilitation to cooperatives, the Government shall do the following:

1. Guiding the cooperative business in accordance with the economic interests of its members;
2. Encouraging, developing and assisting the implementation of education, training, counseling, and research on cooperatives;
3. Providing facilities to strengthen the cooperative capital and to develop cooperative financial institutions;
4. Assisting the development of business networks of cooperative and mutually beneficial cooperation among cooperatives;
5. Providing consultation assistance to solve the problems faced by the cooperative by keep regarding the statute and principles of cooperative.

## **CONCLUSION**

Cooperative will be a developed and progressive business entity if the cooperative is run in a professional manner. Professionalism in the management of cooperative business can be realized among which the business can employ a skilled personnel to manage the cooperative business it is concerned. By the employment of a manager or director it means that the



cooperative officials give authority or in other words there is a delegation of authority. Therefore, the official will no longer carry out its own authority and power that has been delegated to the manager or director. The cooperative officials then turn to be the supervisor for overseeing the implementation of the authority and power done by the manager. The level of authority and power is determined in accordance with the interests of the cooperative.

In the perspective of autonomy, the cooperative association can be said to have not been able to stand on its own, since it still relies on others to develop it. This cooperative still need to get assistance from the government and academicians so that the cooperative can run its business as expected. Furthermore, the principles implemented to develop cooperative, i.e. the principle of cooperative education and cooperation among cooperatives it is found that it has not been done efficiently. With the limited time owned by cooperative officials to manage cooperative, the implementation of cooperative education cannot be executed, so the knowledge of its member is very narrow or minimal. In addition to the five principles above referred, for the sake of its development, the cooperative also needs to implement two other cooperative principles: cooperative education and cooperation among cooperatives. The implementation of cooperative education and cooperation among cooperatives is the important cooperative principle to improve the members' ability, and to strengthen solidarity in realizing the goal of the cooperative. The cooperation among cooperatives can be conducted among the cooperatives in local, regional, national, and international levels. Likewise, the cooperation among cooperatives can also be done in local, regional, national, and international levels. To develop cooperation among cooperatives with other business entities, the organization encourages the growth and development of institutional networks and cooperative efforts either in regional, national, and international levels.

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