

Implementation of Cooperative Principles as an Organization Culture and an Effect on Financial Performance

Sugiyanto

Institut Manajemen Koperasi Indonesia (Ikopin), Indonesia

giyant2000@ikopin.ac.id

Abstract. Cooperative as a business entity still has several problems according to realize cooperative objectives, that are member promotion and business efficiency, which measured by financial performance. In average showed that cooperative financial performance is lower than the standards set by the Ministry of Cooperatives and Small Medium Enterprises, allegedly of cooperative managers have not implemented yet cooperative principles as a cooperative culture in their managerial activities consistently. The purpose of this study is to examine the implementation of cooperative principles as an organization culture and the effect on cooperative financial performance either simultaneously or partially. This research is conducted on 56 cooperative samples in West Java using quantitative descriptive method, and use multiple regression analysis tools. The results of this research show that the implementation of the seven cooperative principles have not been fully implemented in cooperative samples yet. Principle of democratic management is the highest principle implemented by the cooperative, followed by surplus distribution, cooperative education, the giving of limited remuneration to the capital, independence, voluntary and open membership. Lastly, the cooperative principle that is rarely implemented is partnership among cooperatives. Cooperative principles as an organization culture on financial performance simultaneously have significant effect on the cooperative financial performance, but partially do not give any significant effect on the cooperatives financial performance. This study indicates that the financial performance of cooperative will be determined by the implementation of the whole of cooperative principles consistently.

1. Introduction

The history of cooperative development in Indonesia has been driven by the confidence of the Founding Fathers to usher in the Indonesian economy towards prosperity in unity with the motto "makmur dalam kebersamaan dan bersama dalam kemakmuran" (Noer Sutrisno, 2003). Cooperative development policy in Indonesia has changed. During the Orde Baru Era for example, the role of central government is very dominant, and after the enforcement of Undang-Undang Otonomi Daerah, this role delegated to the local government (decentralization). Reformation of cooperative development is carried out by the current government through rehabilitation, reorientation, and development of cooperative activities. As a business entity, cooperatives have actually been able to perform the functions and roles required by the community, thus becoming an alternative form of business institutions whose benefits felt by the community compared to other institutions. Nevertheless, the development of cooperative performance still need attention, as one example, when the cooperative is measured by the ability of financial aspect from the side of liquidity, activity, advantage and profitability is still far from expectations. Government through Ministry of Cooperative and Small Medium Enterprises of Republic of Indonesia has issued cooperative financial performance standards. Most of the financial performance of cooperatives in Indonesia, including in West Java, is still lower than the standards set by the government. The characteristic of the cooperative organization is an autonomous business entity that has certain differences from other business entities. [1] states that, there are two companies (double nature) in cooperative organizations, i.e. individual member companies and cooperative companies belonging to members. Both are unity in cooperative organizations that cannot be separated. The principles of cooperative as the rule of the thumb means that cooperatives are considered to run well if it is able to implement consistently.

The findings of the other researches of [2] indicated that suggested model has appropriate fit and organized culture beyond its direct impact exerted indirect impact on organizational performance through the mediation of employee's organizational commitment that the extent of indirect impact is significantly higher than direct impact. Work-related attitudes and work behavior have relation to the organizational performance [3], there is a significant and positives correlation between organizational cultures and performance management [4]. Additionally, several researchers that studied the relationship between organizational culture and corporate financial performance [5] used numerous corporate financial performance measures. They used return on assets, return on sales, return on investment, profits before interest and taxes, sales intensity, sales growth and market-to-book ratio in order to measure corporate financial performance.

2. Library Review

This research is related to the implementation of cooperative principles as a cooperative organization culture by cooperative management such as board of director, supervisor, manager and employee, as beliefs, values, behavioral, norms and attitudes. This research also studies how much the effect of implementation of cooperative principles as cooperative culture on financial performance. In recent years, there is growing interest in examining the impact of organizational culture and performance, in particular employee performance [6]. These researches revealed that the right set of cultural values often create excitements, high morale, and intense commitment to a company and clarify the behaviors of employees [7]. Many theoretical models were developed throughout the years in exploring organizational culture and how to measure it. Some of the popular theories include [8].

2.1 *Cooperatives Principles as a Cooperative Organization Culture*

Although there is no standard definition for the organizational culture, many scholars mention that the organizational culture is something that is "holistic, historically determined by founders or leaders. It is related to things that anthropologists study like rituals and symbols, socially constructed (created and preserved by the group of people who together form the organization), which is, soft, and difficult to change" [9]. According to [10], there are generally three types of organizational culture: constructive culture, passive-defensive culture and defensive aggressive culture. Constructive culture is a culture in which employees are encouraged to interact with people and teach their tasks and projects by assisting them in satisfying their needs for growth and development. This type of culture supports normative beliefs related to the achievement of self-actualization goals, humane appreciation and unity. Passive-defensive culture is characterized by a belief that allows employees to interact with other in a way that does not threaten their own security. Last, aggressive-defensive culture encourages employees to work hard to protect their job security and status. This type of culture is more characterized by normative beliefs that reflect opposition, power, competitive and perfectionist. The implementations of that value are described in the forms of cooperative principles as the rule of the thumb of the cooperative organization. Anyone involved in cooperative activities should implement cooperative principles as a cooperative organizational culture. In Indonesia, the cooperative principles are implemented by cooperative refers to the cooperative principles contained in "Undang-undang RI No. 25 Tahun 1992 Tentang Perkoperasian. According to the cooperative law, cooperative principles are contained in article 5, which can be explained gradually as follows: (1) Voluntary and open membership means that there is no coercion to become a cooperative member because it is open to anyone who needs its service. The nature of the voluntary membership implies that being a member of the cooperative should not be imposed by anyone, including any withdrawal from the membership; (2) Management must be democratic, means that each member has his right to give aspirations to the cooperative either in submitting opinions, voting rights and also being elected (one man one vote); (3) Surplus distribution is done fairly in accordance with the amount of business services of each member. Cooperative surplus will be distributed to the members after deducting the reserve in accordance with the amount of participation services of each member, not based on the paid up of capital; (4) The giving of limited remuneration to the capital, remuneration, does not depend on the contribution of

members to cooperative capital, because the existing capital in the cooperative is used to provide benefits for members, not for profit. Therefore, the remuneration of capital provided to members is also limited, in the sense that the limited remuneration is reasonable, not exceeding the prevailing interest rate in the market, each member who keeps the capital on their cooperative will receipt limited capital remuneration; (5) Independence, everything that concerns about the cooperative should be able to solve independently by deliberation with all members of the cooperative. Independent seen from two aspects: (a) Cooperative management should be carried out independently from other parties, whether or not government or other related institutions; (b) The cooperative's equity capital condition consists of principal savings, mandatory savings, reserves, and investment capital that must be greater than the debt capital, (6) Cooperative education must be carried out by the organization not only for board of directors and supervisors, but also for employees and more important for members, because member education will encourage member participation; (7) Cooperation among cooperatives, relationship between cooperatives is needed to realize the welfare of cooperative members and develop the national economy, this aims cannot be achieved by individual cooperative, but must be done by cooperation between the cooperatives.

2.2. *Financial performance*

Measuring the performance of cooperatives should pay attention to the purpose of establishing a cooperative to promote member economies that are often measured by the ability of the cooperative to provide economic benefits for its members. Another suggestion is that the success of a cooperative can be measured by the efficiency of the cooperative business as a company, the efficiency of a member that is measured by the member economic benefits, and the co-operative impact on economic development (Hanel A, 2005). In this study, cooperative performance is measured by business efficiency as a company using financial ratios. According to [11] financial ratios analysis involves calculating and analyzing financial ratios to assess a firm's performance and to identify actions that can improve firm performance.

Many financial ratios analysis can be used to assess cooperative financial, but this study only uses four ratios, namely:

- 1). Liquidity Ratio is the ability of the cooperative to fulfill its short-term liabilities that must be met immediately as measured by comparing the current assets with current liabilities. In this study only used current ratio. Current ratio formulated as follows:

$$\text{Current Ratio} = \frac{\text{Current Asset}}{\text{Current Debt}} \times 100\% \dots\dots\dots 1$$

Liquidity ratio will provide a guarantee to creditor providing loan in the short term. This liquidity ratio is important to keep the cooperative healthy in the sense that the cooperative has liquidity capability so that at any time there is obligation to be paid on time.

- 2). The leverage ratio, to measure the ability of cooperative in meeting the capital requirements used to finance cooperative assets, is measured by comparing total of co-operative debts to total assets or comparing total debts to total equity capital. For cooperative management this ratio can also be used to measure the ability of cooperatives in financing assets with debt obtained, with the formula:

$$\text{Debt Ratio To Total Assets} = \frac{\text{Total Debt}}{\text{Total Assets}} \times 100\% \dots\dots\dots 2$$

- 3). Activity ratio is an asset ratio that measures ability of cooperatives in maintaining business stability in the long term as measured by the ability of the cooperative in using its assets to provide services. The greater the asset turnover, the more effective the use of assets is. The total asset turnover ratio represents the effectiveness of the overall use of co-operative assets in

generating member’s service and transactions with non-members. This ratio can be formulated as follows:

$$\text{Total Asset Turnover} = \frac{\text{Member Service + Non Member Transactions}}{\text{Total Assets}} \times 1 \text{ time} \dots\dots\dots 3$$

- 4). Profitability ratio is the ratio to measure the ability of cooperatives to generate surplus of business from assets, capital used and services. So that the cooperative can be assessed by the effectiveness of the use of assets, capital and services to produce surplus of business. In financial management, it is referred to the ratio of return on equity (ROE). Return on equity is a measure of how the stakeholders are fared during the years because benefiting shareholders is goal, ROE is in an accounting sense, the true bottom-line measure of performance. The formulation as follows:

$$\text{Ratio of Business Results to Equity Capital} = \frac{\text{Surplus of business results}}{\text{Owner's equity}} \times 100\% \dots\dots\dots 4$$

For the purposes of the analysis in this study, the data of financial ratios is changed by applying the rating assessment of cooperatives, established by the cooperative ministry and SME, as it is determined by the financial ratios, given certain weights, so that each score can be calculated from the number of inferred scores, used as financial performance data.

3. Research Methods

This research intends to obtain a description of the effect of the implementation of cooperative principles as a cooperative organizational culture on financial performance. The research is conducted in Priangan District, West Java with sample size of 56 cooperatives using a simple random sampling technique. The type of research is descriptive quantitative research and a survey method, which is a method that emphasizes on data acquisition by questionnaires. In order to get data from variable implementation of cooperative principle as a cooperative organizational culture, respondent of this research are managements or supervisors. In addition, financial performance data is taken from the financial statements of each cooperative sample. Analysis methods, used to explain strength and direction effect from independent variable to dependent variable either simultaneously and partially, use multiple regression analysis. Before the regression analysis is done, ordinal data of the variable implementation of cooperative principles as organizational culture is increased to the interval data using MSI and preceded by the Normality test. Hypothesis test is done by statistic of t test and F test.

4. Results and Discussion

The purpose of this study is to examine the implementation of cooperative principles as an organization culture in cooperatives in West Java and to examine the effect on financial performance. The first phase discusses about the implementation of cooperative principles as cooperative organizational culture in cooperatives sample in West Java. It is explained in the following figure 1:

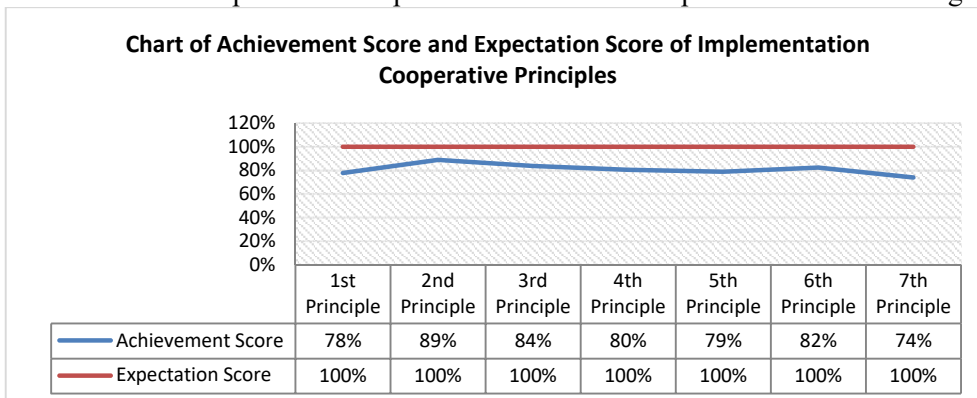


Figure 1. Chart of Achievement Score and Expectation Score Implementation of Cooperative Principles

Based on the chart above, it shows that the implementation of cooperative principles as a cooperative organizational culture has not been fully implemented. The second principle, democratic management, is the highest principle implemented by the cooperatives, then followed by surplus distribution, cooperative education, the giving of limited remuneration to the capital, independence, voluntary and open membership, and cooperation among cooperatives. This condition indicates that until now cooperative samples do not conduct cooperative principles as an organizational culture of cooperative consequently yet. The next discussion relates to test the influence of cooperative principles as an organizational culture on financial performance. This study uses multiple regression analysis, which is preceded by the classical assumption test. The results shows that: (1) Normality test, it is known that the value of significance of 0.955, with alpha 0.1 which means the data has met the assumption of normality. This indicates that data can be used. (2) The multicollinearity test, the VIF value for all independent variables is smaller than 10. It can be concluded that there is no multicollinearity symptom. (3) Autocorrelation test, from the results of autocorrelation test processing with the help of statistical program SPSS 20, obtains the result that the value of DW 1.872. Along with the upper limit (du) 1.868, it can be concluded that there is no autocorrelation between variables with the value Dw 1.872 > 1.868. It shows that the regression model does not have problems of autocorrelation. (4) Heteroscedasticity test, it can be concluded that there is no heteroscedasticity, so there are no confounding variables that are same or variant.

Based on multiple regression analysis with the help of SPSS 20 program, it can be summarized that the effect of the implementation of cooperative principles as cooperative organizational culture on financial performance either simultaneously or partially by the following table 1 and figure 2:

Table 1. Correlation Coefficient of the Effect of Implementation of Cooperative Principles as a Cooperative Organization Culture on Financial Performance

No	Description	R	R Square	Significantly
1.	The effect of implementation of voluntary & open membership principles to financial performance	0,215	4,60%	Not significant
2.	The effect of implementation of democratic management principles to financial performance	0,192	3,70%	Not significant
3.	The effect of implementation of proportional share of business with services to financial performance	0,112	1,30%	Not significant
4.	The effect of implementation of limited remuneration of capital principle to financial performance	0,246	6%	Significant
5.	The effect of implementation of independence principle to financial performance	0,011	0%	Not significant
6.	The effect of implementation of cooperative education principles to financial performance	0,069	0,50%	Not significant
7.	The effect of implementation of cooperation between cooperatives principles to financial performance	0,045	0,20%	Not significant
8.	The simultaneous effect of implementation of cooperative principles to financial performance	0,48	23%	Significant

Source: Results of data processing

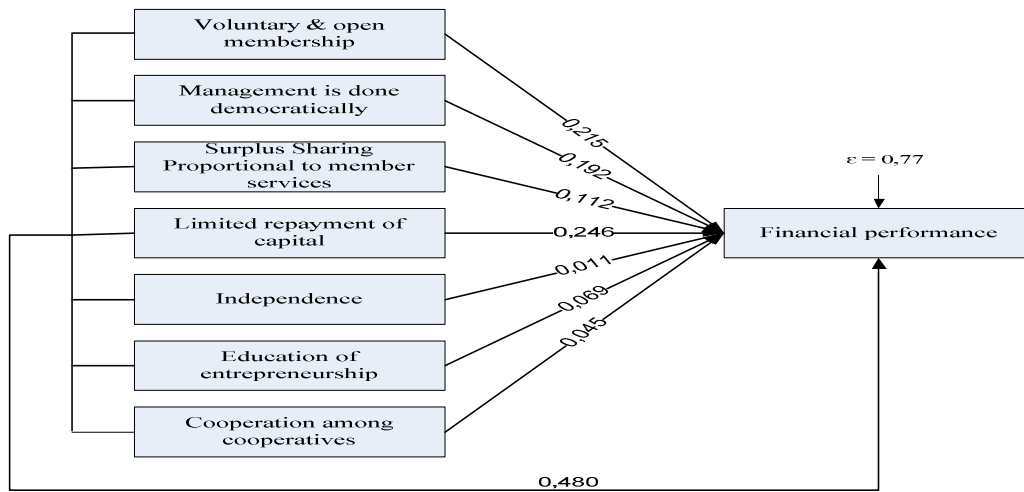


Figure 2. The Effect of Implementation of Cooperative Principles as Cooperative Organizational Culture on Financial Performance

Based on the results of statistical analysis, it can be explained that in simultaneously implementation of all the cooperatives principles as a cooperative culture effect on the financial performance. However, partially the only one variable of implementation of cooperative principle significantly effects on the cooperative financial performance, and the other of six principles do not significantly effect on the financial performance. In detail, it can be discussed as follows:

- a). Simultaneously, the implementation of all cooperative principles as a cooperative organization culture on financial performance has a significant effect with correlation coefficient of $r = 0.48$. This shows that if the cooperative principles are implemented together, it will have an impact on the financial performance of the cooperative. Implementation of cooperative principles cannot be implemented partially as a cooperative organizational culture. The principles of cooperative become a unity of cooperative organizational culture that will serve as organization binder, integrator, organizational identity, energy in order to achieve high performance, sign of quality, motivator, leadership style guidance, and value enhancement stakeholders. It is done together. Consistently, it has impacts to the financial performance of cooperatives. All the cooperative principles are the hallmark of cooperative organization, which must be trusted and acknowledged as the rule of the thumb cooperative organizations: ranging from voluntary and open membership, democratic management, distribution of proportional surplus with services, limited revenues to capital, independence, cooperative education, and cooperation among cooperatives.
- b). The partial and significant effect of the implementation of limited revenues on capital principle to the financial performance of cooperatives with the correlation coefficient of $r = 0.246$, significantly it shows that the cooperatives are able to provide compensation to the owners of capital, although only with a limited amount that has effect on financial performance cooperatives. A good cooperative financial performance will usually be supported by the confidence of the capital owners, so they are willing to participate on the capital needs of the cooperative either from the owner or from creditor. This condition indicates that if the capital owner gets the remuneration, the performance of the cooperative will increase through the increase of capital contribution. The magnitude of the effect of the implementation of limited revenues on capital principle to cooperative financial performance of the determinant coefficient r^2 is 6%.
- c). The partial and insignificant effects of implementation of cooperative principles on financial performance include the effect of implementation of voluntary and open membership principles on financial performance. They are not significant because the implementation of this principle relates to the membership of the cooperative. Being a member of the cooperative means it is no coercion, nor does differentiate gender, race, class, ethnicity, religion, etc. Besides, it is a

volunteerism of its members. Therefore the principle of membership is not related to cooperative business operations. There is no direct connection with financial performance. Membership will be related to the amount of cooperative capital, so that it will indirectly effect the performance of cooperatives. However in fact many members, especially on societal cooperatives, are not actively participate in capital. The effect of the implementation of democratic management principle on the financial performance of cooperatives is not significant. Democratic management occurs when members have to express their opinions, the right to vote and to be elected as the board, supervision and decision making through member meetings. It does not directly affect the financial performance of the cooperative, because at that time the implementation of the principle of democratic management is still part of the level member policy which must be done by the board of director. It has not reached the business operations that have a direct impact on the financial performance. The effect of the implementation of proportional share of surplus business result with service principle to the financial performance is not significant, because the distribution of business results depends on the size of cooperative services utilized by members, not because on the basis of the amount of paid-up capital. This encourages members to be unmotivated to deposit large amounts of capital because the return on capital is often not taken into account. Suppose only to be given a limited amount of remuneration. The effect of the implementation of the independence principle to the financial performance is insignificant, indicating that the conditions, in the field of self-reliance principles, have not been consistently carried out. This condition is illustrated by the circumstances in which many members are not actively contributing to cooperative capital. Cooperative capital is largely derived from loans. In addition, users of cooperative services are mostly used by non-members. The effect of the implementation of the cooperative education principle to the financial performance is not significant. The educational activity for the cooperative is considered as an activity that requires additional expenditure, so it is considered to be a burden of the cooperative organization. Other facts the field of training activities are carried out by the cooperative, because there are offers from other parties' costs borne by the government, private, etc. So that the training activities are just a formality in order not to impact on the performance of the cooperative as a whole. The effect of the implementation of cooperation among cooperatives principle to the financial performance is not significant. This condition occurs because many cooperatives that have not cooperated with other cooperatives or form a secondary cooperative in order to synergize its business through cooperation. Most cooperatives are still trying to rely on their potential business so that the cooperatives are difficult to develop with the financial performance of the cooperative improvise.

5. Conclusions and Suggestions

5.1. Conclusions

Based on the discussion above, the following conclusions is drawn.

- 1). Implementation of cooperative principles as a cooperative organizational culture has not been fully implemented.
- 2). Simultaneously, the implementation of all cooperative principles has an effect on financial performance. It shows that to improve financial performance through cooperative principles there must be implemented together and consistently.
- 3). Partially the only one implementation of cooperative principle is the principle of limited repayment on capital effects to the financial performance of cooperatives. This shows that cooperatives capable of providing compensation to the owners of capital, although it is only with a limited amount of effect to the financial performance. The good financial performance of cooperatives is usually supported by the confidence of the owners of capital, so they are willing to participate to be cooperative capital either from the owner or from creditor.

- 4). Partially implementation of the other six cooperative principles are the implementation of voluntary and open membership, democratic management, surplus distribution proportional with service, independence, cooperative education, cooperation among cooperatives have no effects on financial performance of cooperatives.

5.2. Suggestions

Based on the above conclusions, it is suggested that each Indonesia's cooperative should implement cooperative principles as a cooperative organizational culture as a whole and consistent from the principles of voluntary and open membership, democratic management, proportional distribution of surplus with services, limited revenues to capital, Independence, cooperative education, and cooperation among cooperatives.

References

- [1] Dulfer E. "Managerial of Economics of Cooperative". *International Handbook of Cooperative Organization*, 1994, p.587-592.
- [2] Nikpour A. "The impact of organizational culture on organizational performance: The mediating role of employee's organizational commitment". *International Journal of Organizational Leadership* 6, 2016, 65-72.
- [3] Leithy, WE. "Organizational Culture and Organizational Performance", *International Journal of Economics & Management Sciences*, 2017, 6:4 DOI: 10.4172/2162-6359.1000442
- [4] Ponnu, A L Dorai and Hassan Zubair. The Influences of Organizational Culture on Performance Management, *International Journal of Accounting, Business and Management*, Vol 3, No 1, 2015, ISSN 2285 – 4519.
- [5] Kotrba, L. M., Gillespie, M. A., Schmidt, A. M., Smerek, R. E., Ritchie, S. A., & Denison, D. R. "Do consistent corporate cultures have better business performance? *Exploring the interaction effects*". *Human relations*, 65(2), 2012, 241-262.
- [6] Racelis, A. D. "The influence of organizational culture on performance of Philippine Banks". *Social Science Diliman*, 6(2), pp.29-49 (Online) Available at: <http://journals.upd.edu.ph/index.php/socialsciencediliman/article/viewFile/2026/2010>, 2010.
- [7] Ehtesham, U. M., Muhammad, T. M., & Muhammad, S. A. "Relationship between Organizational Culture and Performance Management Practices: A Case of University in Pakistan". *Journal of Competitiveness*, 2011.
- [8] O'Reilly, C.A., Chatman, J., & Caldwell, D.F. People and Organizational Culture: A Profile Comparison Approach to Assessing Person-Organization Fit. *Academy of Management Journal*, 1991, 34(3), 516.
- [9] Abu-Jarad, I. Y., Yusof, N. a., & Nikbin, D. "A review paper on organizational culture and organizational performance". *International Journal of Business and Social Science*, 1(3). 2010.
- [10] Kreitner, Robert and Kinicki, Angelo. *Perilaku Organisasi*, Terjemahan Erly Suandy. Jakarta: Salemba Empat, Edisi Pertama, 2003.
- [11] Cornett, et al. *Financial Applications & Theory*. New York: McGraw-Hill, 2012.
- [12] Hosni S. Hussein Ali et al. "The Impact of Organizational Culture on Corporate Financial Performance: A Review". *International Journal of Economics, Commerce and Mangament*, Vol. V, Issue 8, August 2017, <http://ijecm.co.uk/>, 2017, ISSN 2348 0386.
- [13] Kementerian Koperasi dan UKM RI. *Undang-undang Republik Indonesia No.25 Tahun 1992 tentang Perkoperasian*, 2001.
- [14] Republik Indonesia. *Peraturan Menteri Koperasi dan UKM Republik Indonesia No.06 Tahun 2006 Tentang Pedoman Penilaian Koperasi Berprestasi*. Jakarta. 2006.
- [15] Yesil, S., & Kaya, A. "The effect of organizational culture on firm financial performance: Evidence from a developing country". *Procedia-Social and Behavioral Sciences*, 81, 2013, 428-437.