

The Impact of Board Director's Entrepreneurship and Members' Participation on Cooperatives' Performance

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Abstract

This study aims to determine: 1) the impact of board of director's entrepreneurship toward the cooperative members' participation, 2) the impact of cooperative members participation on the cooperative performance, and 3) the impact of the board of director's entrepreneurship towards cooperative's performance. The population of this research is 746 cooperatives. The two stages cluster sampling technique was used as the sampling technique in order to obtained as much as 55 cooperatives as the sample. The data were analyzed using path analysis using SPSS 17.0 program for windows. The results of this study show that the board of director's entrepreneurship has a positive and significant effect on members' participation and cooperatives' performance. Furthermore, entrepreneurship and members' participation also have a positive and significant effect on the cooperatives' performance.

Keywords: board of directors' entrepreneurship, members' participation, and cooperatives' performance

Introduction

Cooperative is one of legal non-bank financial institutions that has been known for a long time in Indonesia. Indonesian Law number 2 in 1992 about cooperatives stated that cooperative is a business entity that consists of people or cooperative legal entity which base its activities on cooperative principle as well as people economic movement in the spirit of mutual cooperation.

The success of cooperatives in macro size is closely related to the goal achievement in micro size. In micro size, the cooperative is classified as good if the cooperative's business can provide benefits to its members (Indrawan, 2013). There are three benefits that can be given to its members, namely, revenues from the service, business supports, and profits for its members.

Among those three benefits, the growth of cooperative profit (SHU) as cooperative performance is one of the problems faced by most cooperatives today. According to news from harianhaluan.com dated on 15 February 2016, if the issues of the cooperative's performance cannot be solved, the cooperative must hold the annual members' meeting (*rapat anggota tahunan*—RAT). The news explains that one of the members of this cooperative, Yarlisguwa, complained about the delay in implementing the RAT by the board. The losses that have been suffered by the cooperative's members was due to the absence of RAT execution over the past few years. This problem is caused by a never replaced cooperative's management. In recent years, there has also been an incompetence of policy making and financial management. Thus, members do not receive dividends while they always deposit their mandatory contributions.

Based on an observation conducted, this research finds out that not all cooperatives have acquired a large increase of profit. There are some cooperatives that received low profit in the previous year and even suffered losses. Indeed, there are 746 numbers of cooperatives in Padang in 2016 but not all of them are entirely able to achieve an increase in profit.

The amount of cooperatives' profit in Padang has been fluctuating. The lowest is in 2015 with the amount of IDR7,217,357,000 and the highest is in 2016 with the amount of IDR78,128,595,000. From those accumulated data of cooperative surplus, it was found that many cooperatives in Padang still have low profit, even some of them suffered a loss in each period. The average amount is 42% from all of active cooperatives, which means that almost half of all active cooperatives has low profit.

Factors that influence the amount of cooperative surplus can be grouped into 2 factors (Pachta, et al., 2005). First, internal factors that consist of members' participation, the amount of capital, the committee's performance, the number of business units, and managers' and employees' performance. Second, external factors that consist of loans from the outside, nonmember consumers and government funds and grants.

The low entrepreneurial spirit is allegedly causing low cooperatives profit among cooperatives in Padang. Around 40% of board of directors have not encouraged innovations for the development of cooperatives' business. They are lack in creativity, courage to seize opportunities and advantages, and lack in efforts to seek information on cooperatives development. However, 75% of cooperative managements have been able to solve every problem faced by the cooperatives. This means that the average number of 44% cooperatives' management has a high entrepreneurial spirit, while 56% of cooperatives' management has low entrepreneurial spirit.

Aside from the board directors' entrepreneurial spirit, their performance is also one of the factors to cause low profit. For a preliminary survey, 20 members of cooperatives' committees in Padang have been interviewed and many of them have low knowledge on their jobs. Only 35 % of the board of directors understand their jobs. Around 45% of board of directors always communicate with other committees' members, supervisors or even cooperatives' members. Only 35% of directors are able to hold annual members meeting (RAT) and 35% of them are able to provide loans for their members. As a whole, it means that the average of 45.71% directors show a good performance while 54.28% of them show a poor performance. The better the performance of an organization, the bigger the members' trust on the cooperatives and the bigger the members' interest to participate (Indrawan, 2014).

Another factor influencing cooperatives' performance is members' participation. The number of cooperative members in Padang is fluctuated every year, but number has increased in 2016. Active cooperatives' members also increase every year, even though members' participation percentage as a whole is still low, which is below 50%. This is a problem that should be solved. The average number of active cooperative members each year amounted to 43,197. Furthermore, the average members' participation rate per year is only 39.6%. The more contributions for and participation in cooperatives activities, the greater the members' participation to accelerate and generate cooperative income (Pachta, 2005).

Another factor affecting the cooperatives profit in Padang is the amount of trade receivables. The amount of loans to members from all active cooperatives in Padang has fluctuated. Up to 2015, the number kept increased. This happened due to the savings and loans cooperatives offered easier credit application procedures than commercial banks or other financial institutions. In addition, the loan interest rate was also lower than those of commercial banks. Cooperatives' members are obliged to return the cooperative principal loans because the principal loan is the price of cooperative services.

Furthermore, the amount of capital also has an effect on cooperative's profit in Padang. The amount of cooperatives' capital from 2012-2016 was quite high. However, the amount of cooperatives' capital was around 47.58% of the total equity. This is a problem, because the development of cooperatives depends on their members, especially on its capital contributions. Their own capital is from members' principal contribution, mandatory and voluntary contributions (capital). If members do not pay the deposits, then the cooperative activities, especially cooperative business activities will be hampered. The less the amount of own capital that comes from members, the less the members are able to enjoy the benefit of any business effort of the cooperative.

According to Law No.25 in 1992 article 41, the increase in cooperative profit depends on the activities it is undertaken. In terms of financial aspect, profit will be achieved if the cooperative has sufficient capital that come from principal contributions, mandatory contributions, reserves and grants.

The hypotheses of this study are:

H₁ Board of directors' entrepreneurship has a significant effect on cooperative members participation

H₂ Board of directors' entrepreneurship has a significant effect on the cooperatives' performance

H₃ Cooperative members' participation has a significant effect on cooperatives' performance

Methods

Based on the explanation above, this is a descriptive and associative research. Descriptive research is used to describe the values or events or situations of a variable when the research is being done, while associative research is a research used to determine the relationship between two or more variables. The type of this research when viewed from the analysis and type of data is a quantitative research.

Pardede (2014, 3) states that when viewed based on the research methods, this study is a survey research that is conducted on large and small populations, but what is analyzed is the sample data taken from the population; thus, relative events, data distributions and the relationship between variables are found. Generalization can be done more accurately if representative sample is used.

The population of this research is 746 cooperatives' treasurers in Padang. Two stages cluster random sampling technique was used resulted with 55 sample. The data collection used a questionnaire to obtain primary data.

Results and Discussion

The results of data analysis show that path coefficient for the first sub-structure, the influence of board directors' entrepreneurship on members' participation, is 0.276 with a significance level of 0.011. Furthermore, the path coefficient for the second sub-structure, the influence of board directors' entrepreneurship on cooperatives' performance, is 0.139 with a significance level of 0.033. While the path coefficient for the influence of members' participation on cooperative performance is 0,248 with significance level of 0.003. The three hypotheses proposed in the study were not rejected or accepted because of the significance level is smaller than 0.05.

The direct effect of board directors' entrepreneurship on cooperatives' performance is 0.0193. Whereas, the indirect effect through the members participation is 0.0053. Thus, it can be concluded that the direct effect of board directors' entrepreneurship on cooperative's performance is greater than the indirect effect through the members' participation.

The Board of Director's Entrepreneurship Has a Significant Effect on the Cooperative Members' Participation

Based on the results of the analysis, it can be concluded that there is a positive and significant relation between the board of director's entrepreneurship and members' participation in Padang. This means that the level of directors' entrepreneurship will determine the level of members' participation. This study proves that the higher the directors' entrepreneurship, the higher the cooperatives members' participation.

The results of this study are in line with Hilmi (2017) and Bayu (2007) that show that entrepreneurial managers or board of directors have a significant and moderate impact on members' participation. The board of directors have high entrepreneurial spirit, strive to make creative and innovative efforts to improve the services that meet the members' needs. Service conformity to members' needs encourages members to actively participate in cooperatives.

The Board of Directors' Entrepreneurship has a Significant Effect on Cooperatives' Performance

Based on the analysis results, it can be concluded that the board of directors' entrepreneurship has a positive and significant influence on cooperatives performance. This means that the entrepreneurship aspect will determine the growth of cooperatives' performance. The higher the directors' entrepreneurship, the higher the cooperatives' profit in each period will be, and vice versa. The entrepreneurship skill of the directors has a direct contribution to cooperatives' profit as much as 0.0193, whereas it has an indirect influence of 0.30 through members' participation.

The directors' entrepreneurship skill is related to the ability to innovate. The ability is related to the openness to ideas and the ability to find new ways or methods (Syarbani, 2010). The higher the level of innovation applied will improve the cooperatives' performance. Indeed, one of the cooperative performance indicators is the growth of profits available for members. Cooperative directors' entrepreneurship is closely related to their ability to generate added value that ultimately provide benefits to members of (Syarbani, 2010).

Members' Participation has a Significant Effect on the Cooperatives' Performance

Based on the results of the analysis, it is concluded that members' participation has a positive and significant influence on cooperatives' performance. This means that members' participation will determine the cooperatives' profit as the performance indicator. The higher the members' participation, the greater the profit generated will be, and vice versa. The results of this study indicate that members' participation is an important factor determining cooperatives' performance.

The results of Chalimah's research (2014) show that cooperatives can grow if their members' participation is high. Astuty (2015) explains that if members can utilize cooperatives' existing services, it will increase cooperatives' chance to achieve a high profit. The same results are also found in Sujianto's research (2012), the cooperative's performance is very dependent on the quality of participation. Cooperatives come from members, are controlled by members and are fully utilized for the welfare of members. Similar results are also shown by Setianingrum (2013) and Setiaji (2012), that members' participation has a positive and significant influence on cooperatives' success. The success is measured from the profit generating ability. The members' participation is related to the profit generated to each member. The higher the members' capital participation in cooperatives, the greater the profit received by members.

Conclusions

Cooperatives in Padang should provide entrepreneurship education and training to the board of cooperatives on a regular basis to improve their ability in carrying out cooperatives' businesses and activities. The directors' ability to innovate leads the cooperatives to be able to survive and compete in the competitive environment. As a result, the cooperatives' profit generating ability as cooperatives' performance will increase. Members' transactions both in the capital contributions and in business participation will increase the benefits felt and received by the members, especially in term of cooperatives' profits. The active role of cooperatives' members leads to development which can be seen from the earnings.

Based on the results of this study, the research suggests the cooperative directors to improve their entrepreneurship skill by increasing their courage to face risky opportunities for cooperatives' benefits. It is also suggested that cooperatives' members to improve their participation, especially in terms of capital contributions.

For future research, it is suggested to examine a larger research sample to be able to offer richer findings. In addition, future research can examine other variables that have not been revealed in this study in order to provide comprehensive understanding on factors influencing cooperatives' performance in Padang.

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