



## **Increase in Profit Based on Internal Capital and Business Volume in Cooperatives in Indonesia**

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**Abstract:** The cooperatives in Indonesia have hundreds of thousands, but not all are active due to several factors, including member participation, revenue, assets, and external capital. The purpose of this study is to provide the dominant factors that affect the operating profit of cooperatives. This research is quantitative causality, with data from 2001-2021 and multiple regression as an analysis tool. The data source was obtained from the Ministry of Cooperatives and SMEs. The analysis results show that the variables of own capital and sales volume simultaneously affect the remaining operating results, while partially owned capital does not affect cooperative profits. This research can evaluate increasing cooperative profits through policies that can be applied to cooperatives.

**Keywords:** Business Volume; Cooperative; Own Capital; Profit

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### **INTRODUCTION**

One type of business that involves many people is a cooperative. Cooperatives established several groups, regions, and jobs with the same goal (Chawviang & Kiattisin, 2022). A cooperative is a business entity with a welfare goal for its members by not excluding the cooperative of a business entity. The business model carried out by cooperatives is different from the public and private sectors. Cooperative operations are based on the principles of cooperation and in the end, it is difficult to obtain results that follow the goals of the organization and members of the cooperative (Marques & Teixeira, 2023).

Cooperatives are run democratically and managed well. Therefore, increasing the capacity of cooperative human resources must continuously be improved, both through formal and non-formal. The essence of a cooperative is training and education for members and managers of a cooperative to run according to cooperative principles (Ngo et al., 2023; Richter & Hanf, 2021; Stack, 2021). Through education and training, the awareness of cooperative members will grow by itself. Thus, members' activity in cooperatives will increase in depositing capital and using existing services in the cooperative.

Cooperatives in Indonesia have a foundation that is Pancasila and the Law of 1945. Cooperatives as social organizations, cooperatives are motivated by demand from people who have an underprivileged economy, with the existence of cooperatives can improve the community's economy. A cooperative is a legal entity established by individuals and the existence of a cooperative legal entity by separating the assets of its members as capital when running a cooperative business, to be able to meet the needs in the economic, social, and cultural fields. Overall, cooperatives are defined as business entities owned and also managed by their members (Ch & Jayyidah, 2019)

A company's performance will be influenced by the type of business carried out in finance and changes in the technology platform (Dimitriadou et al., 2023; Gladysz et al., 2023). Cooperatives are established in several groups, regions, and jobs with the same goal (Chawviang & Kiattisin, 2022). A business requires capital in running its business. So it is with cooperatives. The first capital in running a business comes from own capital, but it also comes from loans or assistance from the government (Tanklevska et al., 2023).

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Companies generally choose their capital over capital derived from loans or external financing (Thuy, 2023).

In Indonesia, the number of cooperatives reaches hundreds of thousands. With a large number of cooperatives, of course, the welfare of cooperatives increases. Cooperatives are one of the instruments to reduce poverty (Afolabi & Ganiyu, 2021; Guyalo & Ifa, 2023; Zhang et al., 2021). Cooperatives are also one of the supporting tools for the national economy (Wahyuningtyas et al., 2023)

The characteristics of a cooperative organization are member-based entities. So that ownership, use, and supervision are realized when in the decision-making process on a matter that concerns the affairs of the members (Woldeyes, 2023). Cooperatives are established for the welfare of their members. Anyone who becomes a member has the right to use all types of services in the cooperative. As a member of the cooperative has a double function, namely as owner and user. Based on cooperative law number 25 of 1992 concerning cooperatives, cooperatives aim to advance the welfare of members in particular and society in general. In addition, cooperatives are expected to be able to become a locomotive of national economic development to realize a just and prosperous society based on the 1945 Constitution and Pancasila.

However, in reality, cooperatives are still far below expectations, this is marked by the number of inactive cooperatives from hundreds of thousands of cooperatives in Indonesia. Many inactive cooperatives are still out of hundreds of thousands of cooperatives in Indonesia (Ministry of Cooperatives and Small and Medium Enterprises of the Republic of Indonesia, 2022). The main problems that arise in handling cooperatives, especially when cooperatives have a recession in organizing the Annual Member Meeting or RAT. Management and financial problems in cooperatives often cause difficulties in organizing the Annual Member Meeting or RAT, because the Annual Member Meeting is a form of accountability in cooperative management. Therefore, the success of the cooperative depends heavily on the quality of work and participation of members in the field of management so that it can implement the main objectives of the cooperative. Satisfaction for members will be obtained from the good quality of service from the cooperative, this shows that service is the key to success in a business or activity that is service (Handajani et al., 2019).

This research is critical because it aims to determine which variables dominate efforts to increase cooperative profits in Indonesia. Besides that, it can also advise the government and the cooperative movement in Indonesia.

## METHODS

This study used causal quantitative research. Causal research is research that provides a relationship between one variable with another variable that has a causal relationship. This study analyzes and looks for the influence of the independent variable on the dependent variable. The analysis tool used is multiple linear regression, which is a regression model that has more than one independent variable. This regression analysis serves to determine how much influence the independent variable has on the dependent variable under study. The population of this study is all cooperatives in Indonesia, while the sample used is saturated, meaning that the population is used as a whole. In the research, the data used is secondary data obtained from the Ministry of Cooperatives and Small and Medium Enterprises of the Republic of Indonesia. The data includes cooperative performance data such as principal deposits, compulsory deposits, external capital, turnover, and remaining operating results (SHU) of cooperatives over 20 years from 2001 to 2021. Furthermore, the independent variables in this study include



own capital and cooperative business volume. While the dependent variable is cooperative operating profit.

The models used in this study are as follows:

$$SHU = \alpha + \beta_1 MS + \beta_2 VU + e$$

Where:

SHU = Profit

MS = Own Capital

VU = Revenue

a = Constant

$\beta_{1,2,3}$  = Coefficient regression

e = Error Term

## RESULTS AND DISCUSSION

In this study, we tested several variables that can affect cooperative profits using multiple linear regression as the analysis. Before testing the data, a description analysis of the data on each variable, such as mean, median, minimum, and maximum in the data is carried out.

The statistical description shown in Table 1 shows that the highest number of cooperative SHUs in Indonesia was Rp27.112 trillion in 2016, and the lowest in 2022 was Rp988.5 billion. In terms of own capital, in 2015, it was the highest amount of Rp142.65 trillion and the lowest Rp8.56 trillion in 2002. Finally, the highest variable operating volume was in 2016, amounting to Rp266.13 trillion, with the lowest Rp28.41 trillion in 2002.

**Table 1. Description of Variable Statistics**

Statistic Descriptif	Profit (Rp)	Own Capital (Rp)	Revenue (Rp)
Mean	6.861.051	48.080.163	104.549.751
Median	5.622.164	30.102.013	82.098.587
Min.	988.517	8.568.530	28.415.411
Max.	27.112.000	142.650.993	266.134.619

Source: Data that has been processed by the author (2023)

Furthermore, to determine the influence of each independent variable on the dependent variable, the analysis tool used is multiple regression analysis, which is to determine the influence partially and simultaneously.

The study's results explained that capital and revenue simultaneously affect the remaining results of cooperative business in Indonesia. P-values of  $0.0001 < 0.05$  evidence this. However, in terms of determination value, it proves with adj value.  $R^2$  of 0.634. This means that 63.4% of the variables of own capital and revenue can affect the operating profit of cooperatives in Indonesia. At the same time, the rest can be influenced by other factors such as managerial, business climate, and cooperative assets.

**Table 2. Test Results**

Variable	Coefficient	t-stat	Prob
Constanta	3,8117	0,5608	0,5822
Own Capital	1,2865	1,2145	0,2411
Business Volume	1,3569	1,4028	0,0178
$R^2$	0,6892		
Adj $R^2$	0,6343		
Prob.(F-stat)	0,0001		

Source: Data that has been processed by the author (2023)



Regarding partiality, the capital variable does not influence the remaining operating results. The value of prob. evidences this.  $0.2411 > 0.05$ . While the volume of business has an influence and is significant on the remaining operating results, as evidenced by the value of prob.  $0.017 < 0.05$ . The study's results explained that own capital and business volume affect cooperative profits simultaneously. However, partially, own capital does not affect the cooperative's operating profit.

The capital itself is sourced from principal deposits, compulsory deposits, grants, and reserves owned by cooperatives. Own capital should be more outstanding when compared to capital sourced from outside, such as banking debt, *joint ventures*, and debt to third parties. Cooperatives are established as a collection of people or several cooperatives with the same goal. Therefore, the capital sourced from members must be greater than outsiders. By becoming a member, cooperative members have a high bargaining value and have better management risks than non-cooperative members (Ngo et al., 2023; Onyilo & Adong, 2019). This is what is unique in cooperatives because their capital is sourced from all members of the cooperative. The strength of the cooperative lies in the members, not in the capital. So that the participation and activeness of members are highly expected, so that the spirit of the cooperative as a means of prospering members can be realized.

Simultaneously, this study also corroborates previous research that own capital and sales volume affect cooperative operating profits (Gemina et al., 2021; Lesmana, 2023; Susanty & Santoso, 2022). Likewise, the results of the capital test itself do not affect the cooperative's operating profit, but the sales volume affects the cooperative's profit (Lesmana, 2023). According to Gemina (2021) and Susanty & Santoso (2022), Partially, own capital influences the operating profit of the cooperative.

The activeness of cooperative members is absolute—the strength of the cooperative lies in the members. Cooperatives are collections of people per person, not collections of capital like pure capitalists. Members' Active participation will impact cooperative good governance (Kumkit et al., 2023). Therefore, capital fertilization from members should be increased compared to capital sourced from outside the cooperative. Member participation can affect the distribution of profits and income generation obtained by members (Afolabi & Ganiyu, 2021; Woldeyes, 2023). In addition, being a cooperative member has social capital that can be used to obtain loans from other parties compared to non-members (Yu et al., 2023). Member activeness is highly expected in cooperative activities, this is very important because to advance the cooperative, cooperative members need to evaluate by making continuous improvements in the hope that the cooperative's performance will be better in the future.

Profits will undoubtedly affect a business (Thuy, 2023). Revenue is the turnover generated by a company in a certain period, so adequate effort is needed to generate revenue. The expectation of revenue is more significant than the costs incurred by the Company, which, in essence, to avoid losses and desired profits. In addition, the amount of income generated is also expected to be able to convince cooperatives to obtain loan funds from other parties (Algeri et al., 2021).

Certain businesses, such as communities and those managed by villages, are not only aimed at making profits (Dhewanto et al., 2020). In cooperatives, profit is not the business's primary purpose because cooperatives are established for the welfare of their members and to humanize humans. However, profits must also be set aside to benefit cooperative members economically. In cooperative management, transparency and accountability are needed so that the goals of the cooperative are well achieved (Kumkit et al., 2023; Ngo et al., 2023).



In addition, members also get social benefits, including education and training, a social fund that can be used for the benefit of themselves. Member participation in the cooperative business is needed, because with members' contributions to the cooperative, they can increase the share of profit they will receive later (Woldeyes, 2023). In terms of market risk ownership, cooperative members have better risk management when compared to non-cooperative sectors. Cooperative members have the principles of membership, ownership, and control, so the cooperative must involve members in decision-making to accommodate every interest of each member (Callagher & Garnevaska, 2023).

However, the function of cooperatives in managing these risks is still unclear. Furthermore, the weakness of cooperatives is also still low collaboration between cooperative members is still not going well. Therefore, the role of the government in encouraging and supporting the existence of cooperatives to be better is needed (Ngo et al., 2023).

Cooperatives also need fresh capital to develop their business in the future by fertilizing reserves that can be used at certain times. This reserve fund can also be used to overcome if the cooperative suffers losses or pays overdue debts. The weakness of cooperatives is the low resources of cooperative managers, limited access to capital, and limited mastery of technology in the field of marketing and promotion (Dwipradnyana et al., 2020). Therefore government intervention is highly expected in the development of cooperatives. Government intervention in the development of cooperative human resources, markets, and adaptation of modern technology needs to be carried out thoroughly so that cooperative performance is even better (Arandara & Takahashi, 2023). This can be done as technical training on promotion and marketing, cooperative financial management, the use of digital technology, and so on. Thus, to be able to increase sales of cooperative businesses, managers who have adequate knowledge of how marketing and promotion will be carried out following technological developments so that the products or services produced by the cooperative can be enjoyed by members and will ultimately increase the cooperative's operating profit.

For developing countries such as Indonesia, cooperatives that need attention are cooperatives in agriculture. Because Indonesia has a large agricultural land, one of them is to provide capital injections for the agricultural sector through more financial institutions. As stated by Yu et al., (2023) for developing countries, farmers should establish financial institutions in the form of cooperatives. This is based on the fact that cooperatives have strength in many members, so the opportunity to get loans for cooperative capital is greater when compared to non-cooperative members. so that financial institutions for cooperatives are needed. Furthermore, in terms of capital, cooperatives need to increase funds from principal deposits, compulsory deposits, reserve funds, and voluntary savings sourced from members as an amplification of the cooperative's capital.

## CONCLUSION

The purpose of this study is to determine the effect of cooperatives' capital and cooperative turnover on cooperatives' operating profits in Indonesia. Based on the results of the study, it is proven that income has an impact on increasing cooperative profits, but capital itself has no effect on cooperative profits. Capital reflects the participation of members in the cooperative because there are still few cooperative activities in paying compulsory savings and saving voluntarily. For this reason, cooperatives should increase their capital sourced from principal savings, compulsory deposits, cooperative reserves, and voluntary deposits. In terms of increasing sales, cooperatives need to have managers who have qualified knowledge in the fields of



marketing, promotion, and mastery of adequate technology. In addition, the participation of cooperative members is needed in the development of cooperatives in the future, because cooperative members have a dual function, namely as owners and users of products and services produced by cooperatives. The contribution of this article can be used as evaluation material to increase cooperative profits through business volume and own capital. This study did not use the type of cooperative based on its business group and only used cooperative data in general.

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