

COOPERATIVES BUSINESS PERFORMANCE AND COOPERATIVE SUSTAINABILITY

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COOPERATIVES BUSINESS PERFORMANCE AND COOPERATIVE SUSTAINABILITY

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ABSTRACT

This study aimed to assess and develop the empirical model of the impact capital structure and credit risk on financial. Cooperative is a non-profit organization whose mission is to maximize the benefits of their members, not the maximization of profit but consider cooperative cost minimization strategies. As microfinance institutions, cooperatives generate output doubled, namely financial services on the one hand and the positive social effects on the other side. The research was conducted in West Java with a population Credit Unions in West Java, amounting to 535 cooperatives with active cooperation as much as 394 cooperatives. West Java Province is one of the provinces with the existence of a dominant cooperative 15.26% of the total cooperative in Indonesia an, so the West Java population used to be a limitation of this research area. In this study focused on the cooperatives in cooperation with banks during 6 years. This is based on that cooperation between cooperatives and micro business unit of banking institutions to form a separate unit is unique as well as with the reporting system, assisted by the banking system, allowing acquired data time series and cross section required in this study

The empirical findings indicate that there is significant influence either simultaneously or partial capital structure, credit risk and social performance to financial performance and there is integration between social performance and financial performance in achieving sustainability of cooperatives.

Keywords : Cooperatives, performance , sustainability .

INTRODUCTION

Background

Microfinance approach through cooperative organization aims to reduce the poverty . One way to maintain the social mission and financial sustainability of the cooperative is the integration between the two missions between the purpose of maintaining financial sustainability and social welfare organizations .

Definition, purpose and principles of the cooperative continues to develop from time to time (Mc Killop , 2006) clearly discuss that the basic elements of cooperative activities is how the income of the cooperative can provide benefits to members , the

cooperative journey integrating social objectives and financial goals so that the welfare of members achieved in a broader sense .

The first issue in this research is to conduct studies that relate to the sustainability of cooperatives . Based on data obtained 35.6 % of cooperatives in West Java are not active.

Based on Dunford research (2006) financial sustainability and the balance between positive social impact is the most important goal to achieve social welfare . In accordance with this assumption , the research focuses on the analysis of the financial structure , credit risk , social performance and financial performance is expected to have positive implications for the sustainability of the cooperative . This study tries to find approaches that can help achieve these two goals to maintain the sustainability of cooperatives .The second issue in this research topic is to study the cooperative financial performance related to capital structure and credit risk , given the challenges of today's needs readiness cooperative in the era of the ASEAN Economic Community which is the ultimate goal of economic integration as envisioned in the ASEAN Vision 2020 .Third issue in this topic is a review of the social performance as based on factual conditions cooperative life in Indonesia until today there is a gap between the concept of universal cooperative with practice .The fourth issue , in this study conducted a study on the scale of business that may affect the sustainability of cooperatives .That description is the basis for doing research with the main theme of the capital structure , credit risk , social performance and financial performance in a cooperative effort to maintain sustainability . This is the starting point that the quality of cooperative management is still considered below the standard required for the development of cooperative efforts .

Under these conditions , researcher interested in analyzing the good cooperative aspects of the capital structure , credit risk , social performance , financial performance will have an impact on the sustainability of cooperatives . This study tries to find approaches that can help achieve these two objectives to maintain the viability of cooperatives , especially savings and credit cooperatives .

Research Objectives

This study aimed to assess and develop the empirical model of the impact capital structure and credit risk on financial performance as well as integration of social performance and financial performance in order to achieve sustainability of cooperatives.

RESEARCH OF METHODS

In accordance with the objectives to be achieved, the research is a form of verification, which is a type of research that aims to determine the relationship between variables through hypothesis testing.

The research was conducted in West Java with a population Credit Unions in West Java, amounting to 535 cooperatives with active cooperation as much as 394 cooperatives. West Java Province is one of the provinces with the existence of a dominant cooperative 15.26% of the total cooperative in Indonesia an, so the West Java population used to be a limitation of this research area. In this study focused on the 76 cooperatives in cooperation with banks during 72 months. This is based on that cooperation between cooperatives and micro business unit of banking institutions to form a separate unit is unique as well as with the reporting system, assisted by the banking system, allowing acquired data time series and cross section required in this study,

Variable used in the reasearch are Capital Structure, Credit Risk, Social Performance, financial Performance, Sustainability and the indicator of variable are *Total Debt to Total Asset Ratio (TDTA)* *Total Debt to Equity Ratio (TDTE)*, *Total Debt to Equity Ratio (TDTE)*, *Loan To Deposit Ratio* *Bad Debt Ratio* *Average Loan Size*, *Rate On Asset*, *Growth of Sales*

The design of data analysis with quantitative approach, the statistical analysis and the ratio of recursive simultaneous multiple regression models with panel data methods using Eviews, which is based on the type of data collected and its relevance to the objectives of the research hypothesis .Hypothesis testing on a model that has been free from the assumptions of regression .

Panel Regression Model of the title above as follows:

a. First Model

$$Y = \beta_0 + b_1X_{1it} + b_2X_{2it} + b_3X_{3it} + b_4X_{4it} + e_{it}$$

$$ROA = \beta_0 + b_1TDTA_{it} + b_2TDE_{it} + b_3LDR_{it} + b_4BDR_{it} + e_{it}$$

where:

ROA = Return on assets

β_0 = constant

TDTA = Total debt to total assets

EFT = Total debt to equity

LDR = Loan to deposit ratio

BDR = Bad debt ratio $b(1 \dots 2)$ = regression coefficient of each independent variable

E = Error term

t = Time

i = Cooperative

b. Second Models

$$Z = \delta_0 + b_1X_{1it} + b_2X_{2it} + e_{it}$$

$$GS = \delta_0 + b_1ROA_{it} + b_2ALZ_{it} + e_{it}$$

Specification:

GA = Growth of Assets (Sustainability)

δ_0 = constant

ROA = Return on Assets (Financial Performance)

ALZ = Average Loan Size (Social Performance)

$b(1 \dots 2)$ = regression coefficient of each independent variable

E = Error term

t = Time

i = Cooperative

LITERATURE REVIEW

An integrated approach to dealing with the concept of cooperative operational efficiency related to the business activities of the company as a member of the cooperative and the efficiency of the parties will obtain cooperative effect (Yuyun Wirasasmitha , 2012) . In accordance with the principle of cooperation , cooperatives rely on cooperation than did the competition among themselves . In increasing competition and the challenges of globalization is done through horizontal and vertical integration as well as integration between the financial aspects and social aspects , which allows basic units of the integrated system to remain operational to meet the needs of members . This integration allows the cooperative to combine strength as local organizations with the high advantages (Batemen , 2007) . Integration of the cooperative include horizontal integration , vertical integration and the integration of financial aspects and social aspects . Horizontal integration , ie collaboration of cooperatives operating at the same level of organization , where the cooperative work together to accomplish a specific task . Horizontal integration can also take the form of merger with creating a

new cooperative , where two or more cooperatives merge and reduce costs , to enter into new business areas or to strengthen their position against competitors . Vertical integration means building a system consisting of basic units with higher level units .

Orbuch studies (2011) have demonstrated the existence of a significant social impact resulting from the organization microlenders , this suggests that microfinance should incorporate social intervention if it is to serve as a tool that works to achieve the welfare of the community . Financially sustainable cooperative helped to create organizational efficiency , which is a value added for the organization , integration of services can be a powerful method for the cooperative to comprehensively improve the lives of members and financially stable . The integrated approach provides several benefits to members and the society (Desrochers , 2005) .

One evidence of economic improvement members with an integrated approach is the tendency of members in the group were able to restore good credit so as to have the opportunity and have a readiness to access larger loans for their business. Integrated microfinance can work well, especially in circumstances where the state of public services is still weak, allowing the cooperative to serve the needs of the community that is wide enough to use an integrated approach along with a supportive partner.

Microfinance is applied in cooperative started as a development strategy and objectives that can reduce the poverty of microfinance loan recipients . But due to increased competition and an emphasis on profits and cooperatives may experience a shift in mission, potentially ignoring the initial mission as a tool with a social function to serve the community. One of the most effective ways to maintain this mission is to be the implementation of the integration between social mission and financial sustainability that has been proven to give a positive value for members and the public funds showed that should happen "tradeoff" between the purpose of keep the financial sustainability of the organization and help serve members and community for a social mission.

Integration approach requires cooperation with the government and stakeholders in implementing social services, so that cooperatives can better focus on serving the credit. The main priority should expand the number of customers that achieved by the cooperative and should improve the quality of the beneficiaries, so that the positive effects of microfinance can be sustainable. Microfinance has the potential to be a useful

tool for transformative tool when approached holistic. The previous qualitative research findings that the cooperative seeks to maximize the needs of members and the volume of credit. Moreover, because of its dependence on external investors socially oriented, cooperative required to implement performance measurement systems for the financial and social performance integrate into their management objectives. This study contributes to the efficiency assessment of cooperatives that produce output that capital and loan volume as a measure of financial performance and social performance (Amersdorffer, 2009).

Cooperative is a non-profit organization whose mission is to maximize the benefits of their members, not the maximization of profit but consider cooperative cost minimization strategies. As microfinance institutions, cooperatives generate output doubled, namely financial services on the one hand and the positive social effects on the other side. Based on a comprehensive survey on the analysis of the efficiency of financial institutions, Berger and Humphrey (1997) discusses these two approaches. Hermes et al (2008) examined the trade-offs or compatibility between efficiency and financial reach by using Stochastic Frontier analysis (SFA). In research Hermes et al (2008) found a negative relationship between outreach and financial performance (Balkenhol, 2007; Morduch, 2000). Gutiérrez-Nieto et al. (Gutiérrez-Nieto et al., 2007) emphasizes that microfinance institutions including cooperative has a dual purpose specified in their output. First, assessed through financial sustainability, reflected in the input of the operational costs, and the operational sustainability, reflected in the output of interest and fee income. Second, judging from their social efficiency with regard outreach represented by the output variable number of loans and loan volume. Social efficiency (Gutiérrez-Nieto, Serrano-Cinca, Molinero & March 2009) broaden their concept of social performance in a specification which includes standard variable assets, operating costs, and the number of employees as well as the input credit and income on the output side. To measure the efficiency of social, seen also from the number of women borrowers and indicators that measure the extent to which cooperative activities can provide benefits to marginal groups. Social performance indicator used is the ratio of "average loan balance per borrower" and "income per capita".

Social Performance Indicators (Zeller, Lapenu, Greenly 2003) is one of the most comprehensive measuring tool of indicators related to social performance at the

institutional level (evaluation process and the capacity to reach social performance), and the side effects - members and other stakeholders will be affected by the presence of cooperatives. Cooperative has strategic objectives provide the maximum amount of loans to its members, so affordability as social performance indicators can also be achieved.

Social performance assessment system based on the four dimensions of social performance (Doligez & Lapenu, 2007); (1) Affordability, (2) the adaptation and quality of service, (3) economic benefits, and (4) social responsibility. Target and Outreach refers to the cooperative members and the surrounding community. Social responsibility to the members can be seen as an essential component of financial services.

Based on a comprehensive assessment of the social performance of social output used in the analysis of efficiency and good financial performance will result in significant changes. High costs for external capital is a severe obstacle to the growth of cooperatives. Cooperative use of external funds at a high cost to achieve the purpose of serving the community as much as possible. Financial services provided by the cooperative with high social performance has a social impact, should be considered in the assessment of the sustainability of the cooperative in the future.

Analyze integrated cooperative model is not a simple matter, because it will involve many factors, both quantitative and qualitative, and cooperatives often have to be a hybrid. In order to more effectively advocate for an integrated approach, it is necessary to conduct the study is to assess the quantitative and qualitative benefits experienced by the people and organizations involved with social services, combining social services is an investment that will make people more productive and generally will be success in business.

Integrated microfinance will empower the community, where the services provided will meet the needs of the community and enable them further improve the standard of living (Orbuch, 2011). Good performance on the financial aspects and social aspects of sustainability will be very supportive of the cooperative.

RESULTS AND DISCUSSION

Analysis of the research model based on the results of all statistical tests either partially or simultaneously testing. From the test results will be generated conclusion of the study. Testing will be done through the following steps; (1) pooled test the model,

(2) the Hausman specification test, (3) testing heteroscedasticity assumption, (4) the interpretation of the results of the regression model estimation, (5) and the coefficient of determination (6) hypothesis testing.

Estimation Model gives the following results:

$$Y = 0.032 - 0.009 \text{ TDTA} - 0.002 \text{ LDR} \text{ TDE} + 0.0051 - 0.2399 \text{ BDR}$$

$$(0.0019) \quad (0.0041) \quad (0.0004) \quad (0.0002) \quad (0.0060)$$

This study shows the results of a negative association between increased use of debt in the capital structure and financial performance. This has similarities with the results of the study (Kester, 1986; Lang, 1988, Fama and French, 1998, Gleason et al, 2000; Simerly and Li, 2000, Booth et al, 2001 Ibrahim, 2009) which showed a negative relationship between capital structure and financial performance.

Based on the results of data processing obtained adjusted R-square value of 0.6287, or 62.87 per cent indicate that the capital structure and credit risk simultaneously able to explain the changes in the financial performance of the Cooperative in West Java amounted to 62.87 percent. Based on simultaneous test or exam can be concluded that partial capital structure and credit risk simultaneously significant effect on the financial performance of the Cooperative in West Java.

To analyze the integration between financial performance and social performance to achieve sustainability of the cooperative use of simultaneous recursive approach to multi-regression models were used where ROA is estimated ROA. ROA based on the calculation of the first model.

Through refineries results obtained are presented in table 4.2 above, it can be formed linear regression equation as follows:

$$Z = 0.162 + 0.269 \text{ ALZ} + 0.342 \text{ ROA}$$

$$(0.0057) \quad (0.0411) \quad (0.0131)$$

Z = Growth of Sales (Sustainability)
ROA = Return on Assets / prediction (Financial Performance)
ALZ = Average Loan Size (Social Performance)

The coefficient of determination calculated to determine how much influence the two independent variables (financial performance and social performance) simultaneously to sustainability. Based on the results of data processing obtained adjusted R-square value of 0.7280, or 72.80 per cent indicate that the performance of the financial and social performance simultaneously giving effect to the sustainability of

72.80% in the Cooperative. While the test is based on simultaneous and partial test shows that the performance of the financial and social performance affect the sustainability of cooperatives. This illustrates the integration between financial performance and social performance to achieve sustainability of cooperatives.

In this study also analyzed the two models based on the scale of business, which in this case is discussed small-scale enterprises investigated in West Java.

Through refineries results obtained are presented in Table 3.3 above, it can be formed linear regression equation as follows:

$$\text{ROA} = 0,075 - 0,036 \text{ TDTA} + 0,077 \text{ TDE} + 0,009 \text{ LDR} - 0,198 \text{ BDR}$$

$(0.0042) \quad (0.0041) \quad (0.0046) \quad (0.0016) \quad (0.0087)$

where:

ROA = Return on assets (Financial Performance)

TDTA = Total debt to total assets (Capital Structure)

TDE = Total debt to equity (capital structure)

LDR = Loan to deposit ratio (Credit Risk)

BDR = Bad debt losses (Credit Risk)

The coefficient of determination calculated to determine how much influence the three independent variables (capital structure and credit risk) simultaneously on financial performance. Based on the results of data processing using Eviews software contained in Table 3.3 obtained adjusted R-square value of 0.6856, or 68.56 per cent indicate that the capital structure and credit risk simultaneously able to explain the changes in the financial performance of the Cooperative Swamitra Micro Business Unit Bukopin in West Java amounted to 68.56 percent. In other words, capital structure and credit risk jointly contribute to or influence by 68.56% on financial performance.

To analyze the integration between financial performance and social performance to achieve sustainability cooperative approach based on multi-scale effort to use a recursive simultaneous regression models were used where ROA is estimated ROA based on the calculation of the first model.

Through refineries results obtained are presented in Table 4.4 above, it can be formed linear regression equation as follows:

$$\text{GS} = 0,177 + 0,099 \text{ ALZ} + 0,371 \text{ ROA}$$

$(0.0056) \quad (0.0315) \quad (0.1111)$

where:

GS = Growth of Sales (Sustainability)

ROA = Return on assets (Financial Performance)

ALZ = Average loan size (Social Performance)

Based on the results of data processing obtained adjusted R-square value of 0.716201, or 71.62 per cent indicate that the performance of the financial and social performance simultaneously giving effect to the sustainability of 71.62% on small-scale cooperatives in West Java. Based on test results simultaneously and partially also showed that there was integration between financial performance and social performance to achieve sustainability.

CONCLUSIONS

Empirical findings indicate that there is significant influence either simultaneously or partial capital structure and credit risk on financial performance in the Cooperative in West Java as well as the integration between social performance and financial performance in achieving sustainability of cooperatives.

These studies have found a relationship between cooperative financial sustainability and achievement of social objectives, so that should be considered cost-efficient capital funding functions.

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