

**RECENT DEVELOPMENT OF INDONESIAN CO-OPERATIVE FINANCIAL PERFORMANCE:
MODEL THAT WORKS IN BANDUNG, WEST JAVA**

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Abstract - Co-operative is an autonomous association of persons; voluntarily united to meet their common economic, social and cultural aspirations and needs through a jointly owned and democratically controlled enterprise (ICA, 2012). International Co-operative Alliances recorded that the problem of Indonesian co-operatives from the Government point of view, the biggest problem that the co-operatives, especially small co-operatives, are facing now is the vulnerability of financial structure (ICA, 2012). This study is aimed to learn about the actual financial condition and performance of co-operatives in Bandung, West Java. The outcome of this research is average financial performance, the distribution of financial condition and the best practice from co-operatives sample in Bandung, West Java. Common tools to observe the financial condition and performance is financial ratio analysis, financial ratio analysis described the financial structure of firm according to the financial aspect and the proportion of each financial data. The method used on this research is Financial Ratio analysis of co-operatives financial data. The financial ratio from co-operatives sample transformed in to financial score using the tools from Indonesia Ministerial decree of Co-operative and Small-Medium enterprises number 06/per/M.KUKM/V/2006 on assessment principle for good performing co-operative scoring. The financial score classified in to several conditions based on score range classification by Indonesia Ministerial decree of Co-operative and Small-Medium enterprises number 22/per/K.UMKM/2007 about co-operative classification performance. The result shows that the average financial performance of co-operative sample in Bandung, West Java have increased continuously in last three years. The distribution of financial condition of co-operatives sample in Bandung, West Java, following the percentage: 62.5% of co-operatives sample are in low financial performance, 37.5% of co-operatives sample are in good financial performance. From 8 co-operatives sample in Bandung, West Java, the best practice from the sample is Primkopau Husein Sastranegara. Primkopau achieved the highest total financial score of all co-operatives sample. From the gap analysis and financial ratio breakdown analysis, the important factor that drives Primkopau performance is: 1. Capability to give capital feedback for member. 2. Low-debt capital structure. 3. High member participation in co-operative financial Capital.

Introduction

Co-operatives is an autonomous association of persons; voluntarily united to met their common economic, social and cultural aspirations and needs through a jointly owned and democratically controlled enterprise (ICA, 2012). In indonesia it'self co-operatives posseses main fuction as "soko guru perekonomian indonesia" that means co-operative is corner stone of Indonesian economy. Co-operatives takes the responsibility to build indonesian economics by carrying micro sektor development. According to Indonesian 1992 constitution number 25, clause 5.cooperatives must implementing 5 grounded principle such as voluntarily, democratic, equally, feed back, and

independence. Those principles conform to the national 1945 constitution, which is common economic practice on the basis of familyhood.

Cooperatives are business institutions that are owned and run by their members, with this unique structure. Cooperatives face the challenge to survive in business activity. From the record of the Department of Cooperatives and Small-Medium Enterprises, West Java, in year 2013, the population of co-operatives is 25,252 with total members 5,864,690. From this number of population 10,750 co-operatives are categorized as non-active, there is a lot of cooperatives that are out from business activity, the major reason from this condition is financial problem. International Co-operative Alliance recorded that, the problem of Indonesian cooperatives from the Government point of view, the biggest problem that the cooperatives, especially small cooperatives, are facing now is the vulnerability of financial structure (ICA, 2012). A lot of cooperatives failed to maintain their financial performance, some of them failed to fill the capital needs to run the business, and some of them failed to gain profit from the business. Besides, there is a lot of cooperatives can manage the financial performance to survive in business activity.

Common tools to observe the financial condition and performance is financial ratio analysis, financial ratio analysis describes the financial structure of a firm according to the financial aspect and the proportion of each financial data. Financial ratio analysis can describe the condition of liquidity, capital leverage, activity and profitability of a firm, summarizing all financial ratios can give overall financial condition and performance of a firm. Indonesian Co-operative and Small-Medium Enterprises Ministry used financial ratio analysis to observe the financial condition of co-operative, the ministry developed a tool to judge the financial ratio result to classify co-operatives into several financial conditions. The tool is described in Indonesia Ministerial Decree of Co-operative and Small-Medium Enterprises number 06/per/M.KUKM/V/2006 on assessment principle for good performing co-operative scoring, and Decree number 22/per/K.UMKM/2007 about cooperative classification performance.

According to this condition this study is aimed to learn about the actual financial condition and performance of co-operatives in Bandung, West Java, from cooperative that can manage to survive until today. Observe the financial performance judged by financial ratio analysis and financial aspect scoring from Indonesia Co-operative and Small-Medium Enterprises Ministry.

Research Objective

The purpose of this study is to measure the performance of cooperatives financial condition in Bandung, West Java from years 2011 to 2013, judged from the result of the financial statement Ratio analysis and Productivity aspect scoring from Indonesia Ministerial of Co-operative and Small-Medium Enterprises Decree number 06/per/M.KUKM/V/2006 on assessment principle for good performing co-operative.

Following to the objective, this research performed to answer 3 research questions:

1. How is the actual condition of cooperatives financial performance in Bandung?
2. How is the distribution of cooperatives financial performance in Bandung, good and lower performers?
3. To identify the best practices in current cooperative general performance from sample and what drives them?

Research Limitation

According to the sizes of research sample comparing to Co-operative populations in Bandung, the result from this research cannot be used to represent the actual financial condition of cooperative populations. The result from this research aimed to see the actual financial performance for sample itself.

This study will discuss about:

- Financial performances of co-operatives base on financial report.
- Most of cooperatives have more than one business units, this research using over all financial report of co-operative.
- The analysis of data from financial report is using financial ratio analysis such as: Return on equity modal sendiri, Return on assets, Assets turnover, Net profit margin, Current ratio, Debt ratio and Debt to equity ratio according to element of financial aspect scoring from Indonesia Ministerial decree of Co-operative and Small-Medium enterprises number 06/per/M.KUKM/V/2006 on assesment principle for good performing co-operative.
- The other data is taken from interview result base on interview question and discussion.
- The actual condition of research cooperatives sample .

This study will not discuss about:

- Organizational and management condition about cooperatives sample
- Other quantitative data except financial report.
- Financial condition of spesific business unit in cooperatives.
- Other financial ratio.
- Other descriptive data that not included in interview question.
- Other cooperatives outside of sample.

Literature Review

Cooperative definition

Considering to Indonesian 1992 constitution clause 25, cooperative is a business entity consisting of persons or legal entities, running above cooperative gound principle base on value of familyhood.

Financial Statement

A financial statement (or financial report) is a formal record of the financial activities of a business, person, or other entity.

Relevant financial information is presented in a structured manner and in a form easy to understand. They typically include basic financial statements, accompanied by a management discussion and analysis

A balance sheet, also referred to as a statement of financial position, reports on a company's assets, liabilities, and ownership equity at a given point in time.

An income statement, also known as a statement of comprehensive income, statement of revenue & expense, profit and loss report, reports on a company's income, expenses, and profit's over a period of time. A profit and loss statement provides information on the operation of the enterprise. These include sales and the various expenses incurred during the stated period.

A statement of cash flows reports on a company's cash flow activities, particularly it's operating, investing and financing activities.

Elements of Financial Statements

Assets

Asset is a resource controlled by the entity as a result of past events and from which future economic benefit's are expected to flow to the entity (IASB Framework).

Liabilities

liability is a present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefit's (IASB Framework).

Equity

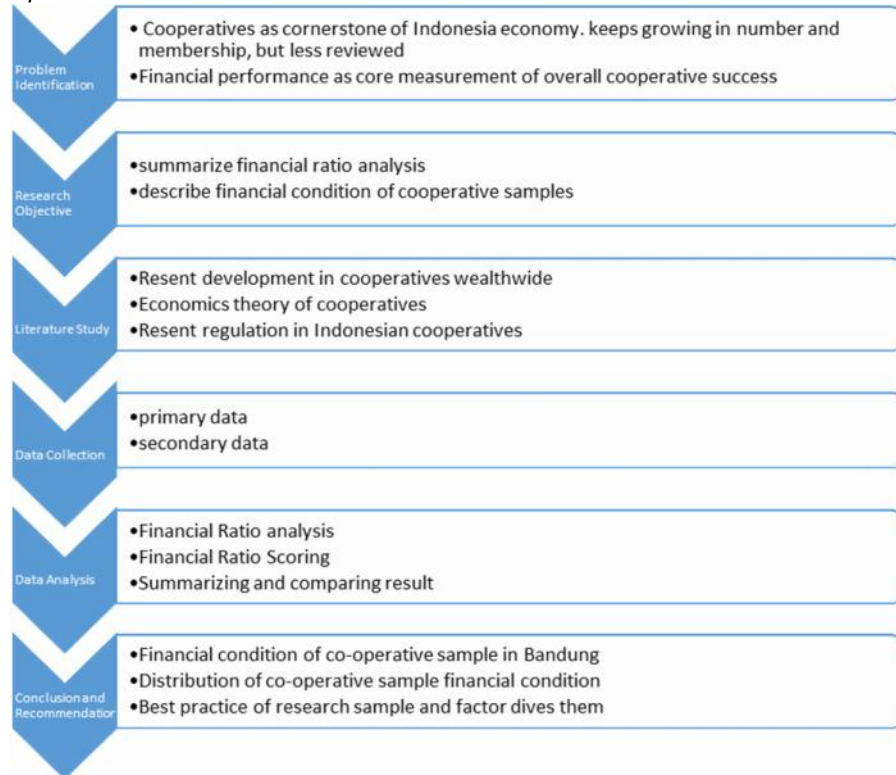
Equity is the residual interest in the assets of the entity after deducting all the liabilities (IASB Framework).

Income

Income is increases in economic benefit's during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants (IASB Framework).

Methodology

Research step



Problem Identification

Problem identification process is finding problem or issues that exist in company or environment. In this research the environment is cooperatives population in bandung, the problem related to cooperatives financial performance in bandung. This research aimed to observe actual condition about cooperatives financial condition in Bandung, west java.

Research Objective

The objective of this research is to answer the research question, measure the performance of co-operatives financial condition in Bandung, west java from years 2011 to 2013 judged from the result of the financial statement Ratio analysis and Productivity aspect scoring from Indonesia Ministerial of Co-operative and Small-Medium enterprises decree number o6/per/M.KUKM/V/2006.

Literature Study

Literature to be used authors come from the internet, books, journals and other literature following to this research objective literature study divided to 3 topics:

- Resent development in co-operatives wealthwide
- Economics theory of co-operatives
- Resent regulation in Indonesian co-operatives

Data Collection

Primary data

Data required for this research is Financial report from last 3 years 2011 to 2013 including Income statement and Balance sheet, the author gathering the data from 8 co-operatives around Bandung, West Java.

Secondary Data

Secondary data used for this research comes from Interview and Literature study.

Analysis method

Financial Ratio analysis

Quantitative analysis of information contained in a company's financial statements. Ratio analysis is based on line items in financial statements like the balance sheet, income statement and cash flow statement; the ratios of one item – or a combination of items - to another item or combination are then calculated. Ratio analysis is used to evaluate various aspects of a company's operating and financial performance such as it's efficiency, liquidity, profitability and solvency.

Productivity aspect analysis

According to Indonesian regulacy "Peraturan Menteri Negara Koperasi dan UKM Republik Indonesia Nomor: o6/per/M.KUKM/V/2006 tentang pedoman penilaian koperasi berprestasi".

there is a method to giving score for each variable ratio:

Variable ratio	Range	Score	Score proportion
Return on equity modal sendiri	=>0,21	100	100
	0,15 - < 0,21	75	
	0,09 - < 0,15	50	
	0,03 - < 0,09	25	
	< 0,03	0	
Return on Assets (ROA)	=>0,1	100	100
	0,07 - < 0,1	75	
	0,03 - < 0,07	50	
	0,01 - < 0,03	25	
	< 0,01	0	
Assets turnover	>3,5	100	100
	2,5 - < 3,5	75	
	1,5 - < 2,5	50	
	1 - < 1,5	25	
	< 1	0	
Net profit margin	>0,15	100	100
	0,1 - < 0,15	75	
	0,05 - < 0,1	50	
	0,01 - < 0,05	25	
	,0,01	0	
Current ratio	2 - 2,5	100	100
	1,75 - < 2 or > 2,5 - 2,75	75	
	1,5 - < 1,75 or > 2,75 - 3	50	
	1,25 - < 1,5 or > 3 - 3,25	25	

	<1,25 or >3,25	0	
Debt ratio	<40	100	100
	>40 - 50	75	
	>50 - 60	50	
	>60 - 80	25	
	>80	0	
Debt to equity ratio	=<70	100	100
	>70 - 100	75	
	>100 - 150	50	
	>150 - 200	25	
	>200	0	
Total Score			700

Data analysis

Average financial ratio of cooperatives sample

To see the financial condition of cooperatives sample in Bandung, the financial ratio from each sample summarized and divided by sample population, to define the average financial performance of cooperatives sample in Bandung, West Java.

ROE									Mean	Score
Year	KKP	KPSBU	Prim	MS	DN	Kkma	RI	Rastra		
2011	0,076	0,076	0,155	0,146	0,007	0,066	0,129	0,1768	0,082	25
2012	0,075	0,077	0,144	0,183	0,006	-0,007	0,130	0,1743	0,076	25
2013	0,074	0,080	0,153	0,223	0,005	0,159	0,118	0,1425	0,102	50
ROA									Mean	Score
Year	KKP	KPSBU	Prim	MS	DN	Kkma	RI	Rastra		
2011	0,036	0,030	0,114	0,023	0,004	0,068	0,099	0,0366	0,047	50
2012	0,026	0,030	0,092	0,023	0,003	-0,005	0,093	0,031	0,033	50
2013	0,024	0,031	0,087	0,055	0,003	0,093	0,083	0,0212	0,047	50
Total Asset Turnver									Mean	Score
Year	KKP	KPSBU	Prim	MS	DN	Kkma	RI	Rastra		
2011	0,666	5,500	0,899	0,299	0,551	4,972	0,199	0,1349	1,636	50
2012	0,501	5,086	1,165	0,230	0,516	7,235	0,189	0,1274	1,865	50
2013	0,520	5,062	0,840	0,451	0,447	16,680	0,174	0,1172	3,022	75
Net Profit Margin									Mean	Score
Year	KKP	KPSBU	Prim	MS	DN	Kkma	RI	Rastra		
2011	0,055	0,006	0,127	0,079	0,008	0,014	0,498	0,2711	0,098	50
2012	0,052	0,006	0,079	0,101	0,007	-0,001	0,494	0,243	0,092	50
2013	0,047	0,006	0,103	0,121	0,007	0,006	0,478	0,1806	0,096	50
Current Ratio									Mean	Score
Year	KKP	KPSBU	Prim	MS	DN	Kkma	RI	Rastra		
2011	2,520	1,485	2,442	3,888	2,159	10,807	4,466	2,009	3,471	0
2012	2,911	1,273	1,859	3,587	1,904	3,449	3,698	2,0561	2,335	50
2013	2,935	1,308	1,616	3,252	1,895	2,229	3,397	1,8779	2,079	100
Debt Ratio									Mean	Score
Year	KKP	KPSBU	Prim	MS	DN	Kkma	RI	Rastra		
2011	0,523	0,600	0,268	0,840	0,414	0,058	0,238	0,7932	0,368	100
2012	0,651	0,610	0,366	0,765	0,471	0,263	0,280	0,8224	0,426	75
2013	0,672	0,617	0,434	0,754	0,452	0,413	0,296	0,8515	0,455	75
Debt to Equity Ratio									Mean	Score
Year	KKP	KPSBU	Prim	MS	DN	Kkma	RI	Rastra		
2011	1,096	1,503	0,366	5,234	0,713	0,057	0,311	3,8347	1,160	50
2012	1,867	1,565	0,573	6,015	0,897	0,358	0,390	4,6298	1,458	50
2013	2,045	1,614	0,766	3,072	0,829	0,705	0,420	5,735	1,181	50

Note: KKP = KKP ITB

KPSBU= KPSBU Jabar

Prim= Primkopau Husein Sastranegara

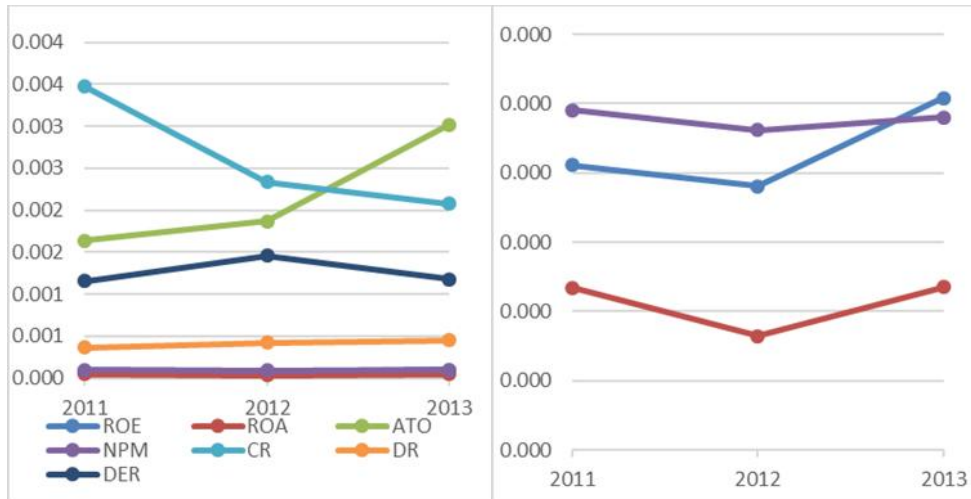
MS= Mitra Sukamaju

DN= Dharma Nirmala

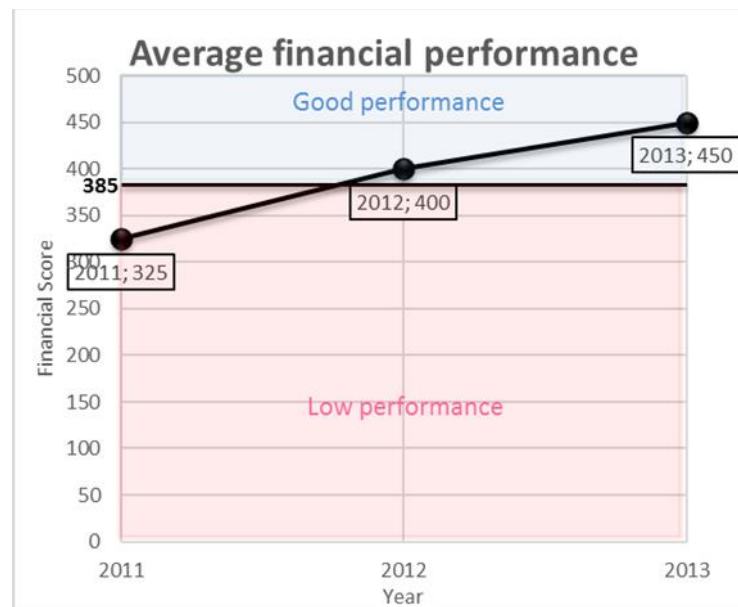
Kkma= Kokesma ITB

RI= Rukun Ikhtiar

Rastra= Rahastra



Year	ROE	ROA	ATO	NPM	CR	DR	DER	Total score
2011	25	50	50	50	0	100	50	325
2012	25	50	50	50	50	75	50	350
2013	50	50	75	50	100	75	50	450



The average total score of financial ratio of cooperatives sample in Bandung is increased continuously, in year 2011 the financial score of Co-peratives sample is in point 325, in year 2012 increased 75 point to 400. The increasing trend continued to year 2013, increased in to score 450 passing the good performance boundaries. According to this result the Average financial performance of cooperatives sample in Bandung is increased continuously in last three years.

Distribution of Co-operatives sample Financial Performance

Co-operatives sample	Scoring							total score	Mean
	ROE	ROA	ATO	NPM	CR	DR	DER		
KKP ITB	25	50	0	50	75	50	50	300	216,6667
	25	25	0	50	50	25	25	200	
	25	25	0	25	50	25	0	150	
KPSBU	25	50	100	0	25	25	25	250	241,6667
	25	25	100	0	25	25	25	225	
	25	50	100	0	25	25	25	250	
Primkopau Husein sastranegara	75	100	0	75	100	100	100	550	483,3333
	50	75	25	50	75	100	100	475	
	75	75	0	75	50	75	75	425	
Koperasi Tani Mitra Sukamaju	50	25	0	50	0	0	0	125	191,6667
	75	25	0	75	0	25	0	200	
	100	50	0	75	0	25	0	250	
Koperasi Dharma nirmala	0	0	0	0	100	75	75	250	233,3333
	0	0	0	0	75	75	75	225	
	0	0	0	0	75	75	75	225	
Kokesma ITB	25	50	100	25	0	100	100	400	400
	0	0	100	0	0	100	100	300	
	75	75	100	0	100	75	75	500	
KSP Rukun Ikhtiar	50	75	0	100	0	100	100	425	425
	50	75	0	100	0	100	100	425	
	50	75	0	100	0	100	100	425	
Koperasi Kredit Rahastra	75	50	0	100	100	25	0	350	308,3333
	75	50	0	100	100	0	0	325	
	50	25	0	100	75	0	0	250	

According to Indonesian Cooperatives and Small-Medium Enterprises Minister decree number 22/per/K.UMKM/2007 about cooperative classification performance. Sample cooperatives classified by the score in to four condition:

1. Low performance ≤ 385
2. Good performance $>385 - \leq 490$
3. Great performance $>490 - \leq 595$
4. Exelence performance >595

Category	Co-operatives	Number of cooperatives
Low performance ≤385	Farmer co-operative Mitra Sukamaju Koperasi Credit co-operative Rahastra (308,3) KKP ITB (216.7) KPSBU Jabar (241.7) Co-operative Dharma Nirmala (233,34)	5
Good performance >385 - ≤490	Kokesma ITB (400) Primkopau Husein Sastranegara (483.34) KSP Rukun Ikhtiar (425)	3
Great performance >490 - ≤595	—————	0
Exelence performance >595	—————	0
Total		8

Note: ——— = No co-operative available

From all 8 population of cooperatives in Bandung, West Java, the distributive result from financial performance analysis is: 5 cooperatives (62.5%) are in low performance, 3 cooperatives (37.5%) are in Good performance.

Analysis of Co-operatives sample best practice

Primkopau achieved the best financial score in this research, this sub chapter will discuss what makes primkopau financial score higher than the others.

year	Return on Equity	Return on Asset	Total asset turnover	Net Profit Margin	Current Ratio	Debt Ratio	Debt to Equity ratio	total score
2011	75	100	0	75	100	100	100	550
2012	50	75	25	50	75	100	100	475
2013	75	75	0	75	50	75	75	425

The strongest part of Primkopau’s financial ratio is in Leverage ratio. Primkopau has strong capital structure with low rate risk.

Return on Equity

Primkopau Return on equity have a good score in average, Return on equity of primkopau in year 2013 is 0.1534 (15.34%). According to the data from Indonesian Central Bank, the average interest rate in year 2013 is 6%. The ROA of Primkopau is more than enough to beat Capital interest rate.

Rate of return for member:

From financial report of primkopau, total equity in 2013 is 1,018,509,161. 696,835,000 came from membership. In the same year primkopau shares 40% profit for member with total profit in 2013 is 156.283.085. Rate of return for primkopau member is 9%, higher than average interest rate in 2013. Besides, primkopau also gave other benefit for member such as service, loan and parcel for special event. From this result primkopau success to manage feed back for their member.

Return on Asset

Primkopau have good score in ROA, the average ROA of primkopau is 0.098, it was a good rate according to Assset structure of Primkopau. Primkopau running a business in service sector such as,

Taxi shelter, Land and building leasing, and parking area. The major component from asset of Primkopau is land and building, asset that have long life productivity and low rate depreciation. For this kind of asset 0.098 in ROA is enough to satisfying Primkopau financial account.

Total asset turnover

Total asset turnover is the weakness point for Primkopau, with high value of the asset structure, it will be hard for primkopau income to cover asset value in a year. In fact that primkopau's asset structure have low rate depreciation, it is fine as long as primkopau can maintain assets productivity.

Net profit Margin

Average Net Profit margin of primkopau in last three years is 0.1, the score of Net profit margin is also in good range.

Current Ratio

Current ratio of primkopau is decreased over three years, according to financial data of primkopau the equity is quite stable, but the current liabilities increased in last the year. The major factor that caused increase in current liabilities is Islamic feast day allowance for Primkopau members. Not related in business activity, the additional liabilities is for the feed back given to primkopau members.

Debt Ratio and Debt to Equity ratio

Leverage ratio is the strongest point of Primkopau, high safety of primkopau capital created stable business activity. Primkopau success to maintain the business cost with internal resource, it was because of capital participation from primkopau members. According to the financial report of primkopau, the average member capital participation for equity is IDR 641,840,667 in a year with total member is 469, which is IDR 1,368,530 per member per year. According to the data from department of co-operatives and small medium enterprises, the average capital participation of co-operative member for equity in Wes Java is IDR 1102 per member per year. Member participation is strongly related to co-operatives capital structure, the sustainability of co-operatives business is strongly depends on member participation.

Result

According to research best practice analysis, the important factor that drives good financial performance of primkopau is:

1. Feedback given for member
2. Low-debt capital structure
3. Members capital participation

Conclusion

Result from the research analysis for actual financial condition of co-operatives in Bandung, West Java. The financial performance of co-operative sample in Bandung, West Java have increased continuously in last three years. From summarizing all financial ratio from sample and divided it by sample population, the average performance for each ratio can described the progress of each financial component such as liquidity, activity, capital leverage and profitability in last three years. With the tools from Indonesia Co-operatives and Small Medium Enterprise Ministry decree number 06/per/M.KUKM/V/2006, the average financial ratio transformed into financial score. Summarizing all financial score generate the average financial performance score of co-operatives sample for 1 years. From year 2011 until 2013 the financial performance score of co-operatives sample in Bandung have been increase continuously.

The distribution of financial condition of co-operatives sample in Bandung, West Java, following the percentage: 62.5% of co-operatives sample are in low financial performance, 37.5% of co-operatives sample are in good financial performance. This proportion comes from the classification of total

financial score of co-operatives sample, using the tools from Indonesia Co-operatives and Small Medium Enterprise Ministry decree number 22/per/K.UMKM/2007 about cooperative classification performance.

The best practice from the sample of co-operatives in Bandung, West Java is Primkopau Husein Sastranegara. Primkopau achieved the highest total financial score of all co-operatives sample. From the gap analysis and financial ratio breakdown analysis, the important factor that made Primkopau has the highest score is:

1. Giving capital feedback for member
2. Low-debt capital structure
3. Maintain members capital participation

Recommendation

Co-operatives is unique business institution, bring the value of familyhoods co-operatives distribute economics value for their members. From the result of research, co-operatives can conducted financial performances as good as the other business institution. The old Indonesian paradigm that co-operatives is uncompetitive institution must be change right now. Co-operative is very capable to compete in market with any other institution, the awareness given for co-operatives must be increase to bring sustainable development for micro sector business as the corner stone of Indonesian economics.

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