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Prof. Dr. Randy Joy Ventayen

COOPERATIVES AS ENTERPRISES

Theory, Governance, and the Future in the Modern Economy

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PREFACE

Cooperatives have long been recognized as one of the most important institutions for promoting economic democracy, community empowerment, and equitable development. Across the world, cooperatives have enabled their members to achieve collective efficiency through economies of scale, economies of scope, and economies of coordination. They have also contributed to improving market access and strengthening the bargaining power of consumers, producers, and small economic actors, while creating employment opportunities and distributing economic benefits more broadly across society. Despite their significant contributions, discussions about cooperatives often remain confined to normative perspectives that emphasize values, principles, and social ideals, while paying less attention to cooperatives as business enterprises operating within increasingly competitive, dynamic, and complex market environments.

As a result, many discussions on cooperatives stop at the level of philosophy and institutional identity without adequately explaining how cooperatives address practical challenges related to business efficiency, governance, transaction costs, organizational incentives, capital formation, risk management, market competition, and long-term sustainability. Yet, these factors are critical determinants of whether cooperatives can survive, grow, and continuously generate economic benefits for their members.

This book was written to bridge that gap. It is the culmination of more than thirty-six years of continuous learning, research, teaching, policy engagement, and practical involvement in cooperative development. Throughout this journey, the lead author has had the privilege of working with cooperative members, practitioners, academics, researchers, policymakers, government institutions, state-owned enterprises, private sector organizations, and community groups across various sectors and regions of Indonesia. These experiences have provided valuable opportunities to observe, study, and reflect upon both the achievements and challenges of cooperative development in different institutional and economic contexts.

One important lesson consistently emerging from these experiences is that the success of cooperatives is not determined solely by the strength of cooperative values and principles. While values remain essential, sustainable cooperatives are those capable of generating tangible economic benefits for their members through collective efficiency, sound governance, professional management, innovation, organizational discipline, and active member participation. Successful cooperatives are not merely organizations that uphold cooperative ideals; they are organizations that create real economic value for their members.

Based on this perspective, this book approaches cooperatives as member-based enterprises that can be analyzed through the lenses of institutional economics, firm theory, organizational governance, cooperative management, and economic development. Cooperative values and principles are therefore understood not merely as moral commitments but also as institutional arrangements that influence incentives, decision-making processes, organizational performance, benefit distribution, and business sustainability.

A central theme throughout this book is the concept of dual identity, in which members simultaneously act as owners and users of cooperative services. This unique characteristic distinguishes cooperatives from capital-based enterprises. Dual identity enables cooperatives to create collective efficiency, strengthen bargaining power, reduce transaction costs, improve market access, and distribute economic benefits more equitably among members. At the same time, however, it also generates institutional challenges, including free-rider problems, capital constraints, governance issues, incentive conflicts, and participation dilemmas. Consequently, modern cooperatives require governance systems that are professional, adaptive, transparent, and capable of responding to rapid economic, technological, and social change.

This book discusses cooperatives comprehensively, ranging from cooperative identity, forms and classifications of cooperatives, membership, member value, capitalization, collective efficiency, cooperative effects, governance systems, risk management, and models for measuring cooperative contributions to national and regional economic development. It also explores the role of the state in building a sustainable cooperative ecosystem, lessons learned from cooperative development experiences in Indonesia and other countries, and the opportunities and challenges faced by cooperatives in the era of digital transformation, globalization, and demographic change.

Through these discussions, this book seeks to demonstrate that cooperatives remain highly relevant in the modern economy not because of historical romanticism or ideological symbolism alone, but because they offer practical institutional mechanisms for creating economic efficiency, strengthening community bargaining power, expanding market access, and promoting a more equitable distribution of economic benefits. Cooperatives represent a distinctive organizational form capable of balancing economic performance with social objectives and democratic participation.

The ideas presented in this book have been enriched by years of interaction with cooperative practitioners, policymakers, academics, researchers, students, and cooperative members throughout Indonesia. Many of the perspectives discussed herein were shaped through research activities, field observations, policy dialogues, academic collaborations, and practical experiences in cooperative development.

The authors would like to express their sincere appreciation to the leadership of the National Research and Innovation Agency (BRIN) for fostering an environment that supports research, innovation, and scientific development. Special gratitude is extended to colleagues at the Research Center for Cooperatives, Corporations, and People's Economy (Pusat Riset Koperasi, Korporasi, dan Ekonomi Kerakyatan), BRIN, whose scholarly discussions, research collaborations, and collegial support have contributed significantly to the development of many ideas presented in this book.

The authors are also indebted to senior colleagues, practitioners, and policymakers from the Ministry of Cooperatives of the Republic of Indonesia, whose commitment to cooperative development and practical insights have provided valuable lessons and inspiration. Appreciation is likewise extended to lecturers, researchers, and cooperative scholars from the Indonesian Cooperative Institute (IKOPIN University), the Faculty of Economics and Business, University of Indonesia (FEB UI), the Faculty of Economics and Business, Airlangga University (FEB UNAIR), Muhammadiyah University Jakarta (UMJ), and Dr. Basrowi from Bina Bangsa University, whose academic contributions, research, and dedication to cooperative studies have enriched the intellectual foundations of this book and helped shape many of the perspectives presented herein.

The authors would also like to extend their special appreciation to Prof. Dr. Randy Joy Ventayen of Pangasinan State University, Philippines, for his thoughtful review of this manuscript. His constructive feedback, professional insights, and encouragement have been invaluable in refining the ideas

presented in this book. The authors are deeply grateful for his generous contribution to enhancing the academic quality, clarity, and rigor of this work.

Finally, the authors would like to thank all friends, colleagues, students, cooperative practitioners, and well-wishers whose encouragement, friendship, constructive criticism, and unwavering support have accompanied this intellectual journey. The completion of this book would not have been possible without the contributions, both direct and indirect, of many individuals who share a common concern for the future of cooperatives and people's economy institutions.

The authors fully recognize that this book still has limitations, both in the depth of analysis and in the scope of issues discussed. Constructive criticism, suggestions, and feedback are therefore warmly welcomed for future improvement. It is our hope that this book will be useful for academics, students, cooperative practitioners, policymakers, and all readers interested in understanding cooperatives as modern, democratic, inclusive, adaptive, and sustainable economic institutions.

Jakarta, June 2026
On behalf of the Authors,

Akhmad Junaidi, S.E., M.E.

FOREWORD

(Prof. Dr. Randy Joy Ventayen)
Pangasinan State University, Philippines

The study of cooperatives has long occupied a unique position within economic and organizational literature. Unlike conventional Capital-Based Enterprises (CBEs), cooperatives combine economic objectives with democratic governance, collective ownership, and member participation. This dual character often makes cooperatives difficult to analyze using traditional business frameworks, while at the same time distinguishing them as one of the most innovative institutional responses to market challenges, social inequality, and community development needs.

In an era characterized by rapid technological change, economic globalization, digital transformation, and increasing concerns about inclusive growth, the relevance of cooperatives deserves renewed attention. Around the world, cooperatives continue to operate in agriculture, finance, retail, housing, energy, education, healthcare, and many other sectors. Their resilience during economic crises and their ability to balance economic efficiency with social responsibility have attracted growing interest from scholars, policymakers, and practitioners alike.

This book, *Cooperatives as Enterprises: Theory, Governance, and the Future in the Modern Economy*, provides an important contribution to contemporary discussions on cooperatives. Rather than approaching cooperatives solely from historical, ideological, or normative perspectives, the book examines them as economic enterprises that must function within competitive markets while remaining faithful to their cooperative identity. This perspective is particularly valuable because many discussions of cooperatives focus extensively on principles and values but pay less attention to the organizational, managerial, and economic realities that determine long-term sustainability.

One of the strengths of this book lies in its integration of multiple perspectives. The author successfully connects cooperative theory with concepts from institutional economics, governance, organizational behavior, economic development, and business management. Readers are encouraged to understand cooperatives not only as social institutions but also as organizations that face challenges related to efficiency, capital formation, member commitment, leadership, risk management, technological adaptation, and market competition.

The discussion on governance is especially relevant in today's environment. As cooperatives grow in scale and complexity, questions regarding accountability, transparency, professional management, and member participation become increasingly important. The book highlights that effective governance is not merely a regulatory requirement but a strategic necessity for ensuring trust, sustainability, and long-term performance. Such insights are highly relevant for cooperative leaders, managers, policymakers, and development practitioners.

Another noteworthy contribution of this work is its attention to the future of cooperatives. The cooperative model is often perceived as traditional or limited to specific sectors. However, this book demonstrates that cooperatives possess considerable potential to innovate and adapt within the digital economy. Emerging opportunities in platform cooperatives, digital services, community-based enterprises, and technology-enabled governance illustrate that cooperatives can remain competitive and relevant in rapidly changing economic environments.

The comprehensive scope of the book makes it suitable for a broad audience. Students will benefit from its theoretical foundations, researchers will find useful analytical frameworks, practitioners will gain practical insights into cooperative management and governance, and policymakers will obtain a deeper understanding of how cooperatives can contribute to inclusive and sustainable development. The book also serves as an important reference for anyone interested in alternative business models that seek to balance economic performance with social impact.

I believe this publication represents a meaningful addition to the growing body of cooperative literature. It encourages readers to move beyond simplistic perceptions of cooperatives and to appreciate their complexity as enterprises operating at the intersection of economics, governance, and community development. More importantly, it reminds us that the future of cooperatives depends not only on preserving cooperative values but also on strengthening their capacity to innovate, compete, and create value for their members and society.

I commend the author for undertaking this significant work and hope that it will inspire further research, discussion, and practical innovation in the cooperative sector.

Manila, June 2026
Reviewer

Prof. Dr. Randy Joy Ventayen
Pangasinan State University, Philippines

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CHAPTER I

COOPERATIVES AND CAPITAL-BASED ENTERPRISES IN THE MARKET ECONOMY

1. Introduction

In a market economy, firms are the primary institutions that coordinate the production, distribution, and exchange of goods and services. Through firms, resources are allocated, risks are managed, and economic decisions are made in response to changes in prices, demand, and competition (Samuelson & Nordhaus, 2009).

However, firms do not exist in a single uniform form. Although mainstream economics often places capital-based enterprises as the dominant model, practice shows the existence of various institutional forms with different characteristics in ownership, control, and economic objectives (Hansmann, 1996). These differences are not merely organizational variations, but fundamentally determine how firms behave in the market.

In this context, cooperatives emerge as member-based enterprises with a unique characteristic: the integration of the roles of owner and user within a single entity. Unlike capital-based enterprises (CBEs), which place capital at the center, cooperatives place members at the center of economic activity.

This chapter aims to explain the position of cooperatives within the market economy by comparing them with CBEs. The discussion includes differences in institutional structures, the role of cooperatives in correcting market failures, the concept of dual identity, differences in goals and strategies, as well as the economic trade-offs arising from the two models. Through this discussion, readers are expected to understand that the choice of business form is not merely a technical matter, but also reflects preferences regarding efficiency, stability, and equity within the economic system.

2. Position of Cooperatives in the 1945 Constitution

The position of cooperatives within Indonesia's economic system has a strong constitutional foundation. This is reflected in the 1945 Constitution of the Republic of Indonesia, particularly Article 33 paragraph (1), which states:

"The economy shall be organized as a common endeavor based upon the principle of brotherhood."

The phrases "common endeavor" and "principle of brotherhood" form the normative foundation that positions cooperatives not merely as ordinary business enterprises, but as the business structure most aligned with Indonesia's national economic ideals. The official explanation of the 1945 Constitution prior to the amendments explicitly stated that the type of enterprise consistent with this principle is the cooperative.

Philosophically, cooperatives are viewed as forms of economic organization that reflect the spirit of mutual cooperation, solidarity, economic democracy, and social justice. In cooperatives, members act not only as capital owners, but also as service users and controllers of the organization through the principle of one member, one vote. Thus, cooperatives differ from capitalist enterprises that place the dominance of capital as the primary determinant of economic power.

Mohammad Hatta, widely recognized as the Father of Indonesian Cooperatives, positioned cooperatives as instruments of people's economic struggle. According to Hatta (1954), cooperatives are collective efforts to improve economic welfare based on mutual assistance and the spirit of collectivism. In Hatta's view, cooperatives are not merely economic institutions, but also instruments for democratic education and national character building.

The position of cooperatives in the 1945 Constitution also demonstrates that Indonesia's economic system does not fully embrace either free-market capitalism or state socialism. Indonesia develops the concept of economic democracy, namely an economic system that places the people as the main actors in economic activities based on the principles of togetherness, equitable efficiency, sustainability, and independence. Following the constitutional amendments, this principle was reinforced in Article 33 paragraph (4), which states:

"The national economy shall be organized based on economic democracy with the principles of togetherness, efficiency with justice, sustainability, environmental awareness, independence, and by maintaining a balance between national economic progress and unity."

In this context, cooperatives occupy a strategic position as institutional instruments for realizing economic democracy. Cooperatives enable communities to collectively consolidate economic resources, especially groups with limited capital, in order to strengthen bargaining power and achieve larger economies of scale. Therefore, cooperatives are considered highly relevant for inclusive economic development and equitable welfare distribution.

Theoretically, the recognition of cooperatives as a business structure within the constitution reflects an acknowledgment of the plurality of enterprise forms within the economic system. Firms are not understood solely as profit-seeking enterprises for capital owners, but may also take the form of member-based enterprises oriented toward service and collective welfare. This perspective aligns with the concept of brotherhood economics, which places solidarity, cooperation, and moral values as the foundations of economic activity.

In practice, strengthening cooperatives as a constitutional mandate faces various challenges, including weak governance, low member participation, limited capital, and market domination by large corporations. Therefore, cooperative development cannot rely solely on administrative approaches to legal establishment, but requires strengthening business capacity, member education, management digitalization, and integration within the national economic ecosystem.

Thus, the position of cooperatives within the 1945 Constitution demonstrates that cooperatives are constitutional economic instruments designed to realize economic democracy, strengthen public welfare, and maintain balance between economic efficiency and social justice. Cooperatives are not merely alternative business enterprises, but part of the identity of Indonesia's economic system.

3. Comparison between Cooperatives and CBEs

A cooperative is a member-based enterprise in which the owners are simultaneously the users of the services (user-owner). In cooperatives, ownership, usage, and control are integrated and exercised according to the principles of economic democracy—one member, one vote (Hansmann, 1996; Birchall, 2011). The primary objective of cooperatives is to maximize members' economic benefits through fairer prices, cost efficiency, market access, and income stability (Staatz, 1987). Therefore, the Net Surplus (SHU) generated by the cooperative is allocated and distributed to members based on their economic participation rather than purely on capital ownership.

In contrast, a capital-based enterprise (CBE) is a company in which ownership, control, and profit distribution are determined by the amount of invested capital. Its owners are investors or shareholders, who are not necessarily direct users of the company's products or services. The primary objective of CBEs is to maximize profit and return on investment (ROI) for capital owners (Jensen & Meckling, 1976; Holmström & Tirole, 1989). In this system, the principle of one share, one vote applies, and profit distribution is based on share ownership.

Despite these fundamental differences, cooperatives and CBEs are both business actors operating within the market economy. Both coordinate resources, face prices and competition, and are required to remain efficient and financially sustainable (Samuelson & Nordhaus, 2009; Coase, 1937; Williamson, 1985). The difference lies in how ownership, objectives, and economic benefits are organized.

Table 1. Comparison between Cooperatives and CBEs

Aspect	Cooperative	CBEs
Ownership	Members (users)	Investors
Relationship	Integrated (owner and user are the same)	Separated (owners and users are different)
Objective	Member benefits and welfare	Profit maximization / Return on Investment (ROI)
Control	One member = one vote	One share = one vote
Distribution of Returns	Based on member participation through Net Surplus Distribution (NSD), including Patronage Refunds	Based on capital ownership (dividends)
Orientation	User-driven	Capital-driven

These differences demonstrate that cooperatives and CBEs possess fundamentally different institutional designs. If CBEs place capital at the center, cooperatives place members at the center. Therefore, cooperatives are not merely a variation of business form, but rather a model of economic organization that integrates market efficiency with principles of justice and participation.

4. Cooperatives as Corrective Institutions in the Market Economy

A market economy is a system in which resource allocation is determined by price mechanisms, voluntary exchange, and competition among economic actors. Within this system, markets bring together supply and demand, while prices serve as the primary signals directing investment, production, and consumption decisions (Samuelson & Nordhaus, 2009; Hayek, 1945).

However, market mechanisms do not operate without actors. Economic activities are carried out by concrete organizations, particularly firms, which coordinate production and distribution to achieve efficiency, including through the reduction of transaction costs (Coase, 1937). In mainstream economics, firms are generally understood as capital-based enterprises oriented toward profit maximization, causing variations in institutional forms—including cooperatives—to receive less attention (Holmström & Tirole, 1989; Milgrom & Roberts, 1992).

This is where cooperatives occupy a strategic position. Cooperatives are member-based economic organizations founded on the principles of collective ownership and economic democracy, oriented toward fulfilling members' needs rather than merely accumulating capital.

Within this framework, cooperatives can be understood as institutions that correct market failures, such as information asymmetry, limited access to resources, and non-competitive market structures (Akerlof, 1970; Stiglitz, 2002; Sexton, 1990). Such conditions are frequently found in agriculture, fisheries, livestock, energy, and microenterprise sectors, where small-scale economic actors often face weak bargaining positions and price uncertainty.

Furthermore, cooperatives possess a distinctive characteristic as dual market institutions, operating simultaneously on both the producer and consumer sides. On one hand, cooperatives aggregate small-scale producers to strengthen production and marketing capacities. On the other hand, cooperatives may also organize consumers to consolidate purchasing power in order to obtain better prices and quality (Hansmann, 1996; Birchall, 2011).

In carrying out their role within the market economy, cooperatives function not only as business actors, but also as institutional mechanisms that improve market efficiency and fairness. Conceptually, the functions of cooperatives may be summarized as follows:

a. Enabler, namely opening members' access to production inputs, technology, markets, and financing that would otherwise be difficult to obtain individually (Stiglitz, 2002).
b. Aggregator, namely consolidating supply (supply aggregation) and demand (demand aggregation) to achieve economies of scale and strengthen members' bargaining power (Sexton & Iskow, 1988).
c. Collective efficiency, namely the ability to reduce transaction, distribution, and production costs through collective action resulting from aggregation (Coase, 1937; Williamson, 1985).
d. Price influencer and market stabilizer, namely influencing prices while maintaining market stability through the collective power of transactions (Sexton, 1990; Staatz, 1987).
e. Creator of producer and consumer surplus, whereby cooperatives increase producers' income while reducing consumer prices through efficiency and reduced intermediary margins (Staatz, 1987).
f. Internal market organizer, namely creating transaction mechanisms that are more transparent, stable, and based on members' needs (Hansmann, 1996).
g. Cooperative effect, namely the systemic impact of collective action in the form of increased business scale, market stability, and more equitable distribution of benefits (Birchall, 2011).

Through this combination of functions, cooperatives not only improve the economic performance of their members, but also contribute to improving the structure and performance of markets as a whole, particularly in sectors characterized by small-scale enterprises and imperfect market conditions.

Through these functions, cooperatives often serve as internal market organizers by creating transaction mechanisms that are more transparent, stable, and oriented toward members' interests (Staatz, 1987; Hansmann, 1996).

Thus, cooperatives are not enterprises outside the market economic system, but rather integral parts of it. As dual market institutions, cooperatives simultaneously bridge the interests of producers and consumers, thereby reducing market distortions, improving efficiency, and promoting a more inclusive and equitable economic system.

5. Cooperatives as Member-Owned and Member-Based Enterprises (Dual Identity)

Cooperatives are member-based enterprises characterized by dual identity, in which members simultaneously act as owners and users. Within this structure, ownership, usage, and control are not separated, but integrated within the members themselves (Hansmann, 1996; Birchall, 2011).

This dual identity distinguishes cooperatives fundamentally from capital-based enterprises (CBEs), which separate owners (investors) from users (consumers). In cooperatives, members not only contribute capital, but also participate as customers through economic transactions—whether as buyers, suppliers, or service users. Thus, members' contributions possess two dimensions simultaneously:

a. As owners, members provide capital and exercise control rights through democratic mechanisms (one member, one vote);
b. As customers/users, members create business volume through transaction participation, which forms the basis of the cooperative's economic activities (Staatz, 1987; Cook, 1995).

Similarly, the United States Department of Agriculture (USDA) in 1987 (as cited in Ortmann & King, 2007) explained three key cooperative principles related to the position of members as users: user-ownership, user-control, and user-benefit. The principle of user-ownership emphasizes that users are simultaneously owners of the cooperative. The principle of user-control indicates that user-members possess the right to democratically control and determine the cooperative's policy direction. Meanwhile, the principle of user-benefit stresses that the economic benefits of cooperatives must ultimately return to members as users of cooperative services.

The USDA approach reinforces the idea that the primary characteristic of cooperatives lies in the integration of members' roles as users, owners, controllers, and beneficiaries simultaneously. Thus, cooperatives are not merely understood as businesses owned by members, but as economic organizations whose entire business activities are directed toward providing direct benefits to members through their own economic participation.

This integration of roles has important economic implications. First, cooperatives are able to reduce conflicts of interest between owners and users because both roles exist within the same subjects. Second, business decisions become more strongly based on members' actual needs rather than purely on the optimization of financial profits. Third, the distribution of benefits (**NSD**) becomes fairer and participation-based because it is directly linked to members' economic activities rather than capital ownership alone (Hansmann, 1996).

Moreover, members' contributions as customers also create a relatively stable internal market base. Members' participation in transactions ensures continuous demand and/or supply, enabling cooperatives to achieve higher levels of business certainty compared to firms that rely entirely on external markets. This strengthens the cooperative's function as an internal market organizer while enhancing business resilience in facing market fluctuations (Staatz, 1987; Sexton, 1990).

From the perspective of institutional advantage, dual identity enables cooperatives to build efficiency based on participation. The more actively members engage in transactions, the greater the economies of scale achieved, the stronger the cooperative's bargaining position, and the greater the benefits returned to members. In other words, member participation becomes both the source of value and the mechanism for benefit distribution (Birchall, 2011).

Thus, cooperatives differ from CBEs not only structurally, but also functionally through this dual identity. While CBEs rely on capital as the primary driving force, cooperatives rely on the involvement of members as both owners and users. This is what enables cooperatives to integrate economic efficiency, business stability, and distributive justice within a single institutional design.

6. Goal Orientation and Strategy: Cooperatives vs CBEs

Cooperatives are member-based enterprises in which members act simultaneously as owners and users (user-owners). Therefore, the primary objective of cooperatives is to maximize members' economic benefits rather than merely financial profit (Hansmann, 1996; Birchall, 2011). The success of cooperatives is measured by their ability to improve members' welfare through fairer prices, more efficient costs, and broader access to economic services (Staatz, 1987).

Conceptually, the objective of cooperatives can be expressed as:

$$\max U = f(B, P, A)$$

where member utility (U) is influenced by price benefits (B), the level of member participation (P), and access to economic services (A). The distribution of Net Surplus Distribution (NSD) is based on members' economic participation rather than capital ownership. Capital in cooperatives functions as a supporting instrument with relatively limited returns (Hansmann, 1996).

This goal orientation is reflected in cooperative strategies, which focus not only on profit, but also on strengthening members' economic positions and ensuring business stability. Cooperative strategies tend to emphasize collective efficiency, bargaining power enhancement, market stabilization, and shared risk management.

In contrast, capital-based enterprises (CBEs) possess fundamentally different objectives. CBEs aim to maximize profit and return on capital for investors (Jensen & Meckling, 1976; Holmström & Tirole, 1989). Owners hold residual claims over profits and possess control rights over strategic business decisions.

In simplified form, the objective of CBEs can be represented as:

$$\max \Pi = R - C$$

where profit (Π) becomes the central focus of decision-making. Profit distribution follows the proportion of capital ownership, meaning that the greater the invested capital, the greater the control and share of profits received.

These differences in orientation are reflected in the strategies pursued. CBEs generally adopt strategies focused on market expansion, cost efficiency, profitability enhancement, and optimization of returns on capital, with a strong orientation toward external markets and competition to maximize profits (Porter, 1985).

Thus, the primary difference between cooperatives and CBEs lies in their fundamental orientation. Cooperatives place members at the center, while CBEs place capital at the center. This difference is not merely normative, but also determines how firms design strategies, make decisions, and distribute economic benefits.

In contrast, cooperative strategies are not solely profit-oriented, but also directed toward protecting and strengthening members' economic positions.

Empirically, cooperative strategies may be understood through several main patterns (Peterson & Anderson, 1996):

a. Competitive Yardstick
   Cooperatives function as benchmarks for prices and quality within markets, thereby encouraging fairer competition (Sexton, 1990).
b. Conservative Investment
   Cooperatives tend to be cautious in investment decisions, focusing on protecting members' assets and ensuring business sustainability (Cook, 1995).
c. Maintain-the-Market
   Cooperatives maintain market access for members, even under conditions of market failure, in order to ensure income stability for members (Staatz, 1987).
d. Diversification
   Cooperatives develop multiple business units to spread risk and maintain the economic sustainability of the organization.

The difference between cooperatives and capital-based enterprises (CBEs) lies in the relationship between the goals pursued and the strategies implemented. In CBEs, strategies are directed toward maximizing profit and return on capital, whereas in cooperatives, strategies are focused on maximizing member benefits while maintaining members' economic stability. Thus, cooperatives integrate two dimensions simultaneously: the economic dimension—including efficiency, business sustainability, and value creation—and the member protection dimension, such as income stability, risk reduction, and distributive fairness. This confirms that cooperatives are not merely an alternative form of enterprise, but an institutional design fundamentally different in linking economic objectives with market strategies.

7. Economic Trade-offs between Cooperatives and Capital-Based Enterprises (CBEs)

As member-based enterprises, cooperatives offer advantages in equitable benefit distribution, business stability, and member economic protection, especially under imperfect market conditions. The membership structure allows cooperatives to internalize users' interests directly into decision-making processes, making strategies such as maintain-the-market and price stabilization rational choices (Staatz, 1987; Sexton, 1990). In many cases, this enables cooperatives to sustain members' income stability and reduce risks arising from market fluctuations.

However, these advantages are not without consequences. Democratic decision-making mechanisms may create higher coordination costs, slower decision-making processes, and potential compromises among members' interests (Hansmann, 1996). In addition, limitations in capital mobilization and managerial capacity within some cooperatives may constrain expansion speed and adaptability to market changes (Cook, 1995). Consequently, the orientation toward stability and inclusiveness in cooperatives is often accompanied by trade-offs in efficiency and responsiveness.

Conversely, capital-based enterprises (CBEs) provide advantages in decision-making efficiency, flexible access to capital, and faster expansion capabilities. A capital-based control structure enables strategic decisions to be made in a more centralized and responsive manner in relation to market dynamics (Fama & Jensen, 1983). This makes CBEs more adaptive in highly competitive and rapidly changing business environments.

On the other hand, the primary orientation toward profit maximization in CBEs may reduce attention to equity and economic stability for weaker economic actors. In certain conditions, financially efficient decisions may not always align with the protection of small producers' incomes or the sustainability of long-term business relationships (Sexton, 1990).

Thus, the trade-off between cooperatives and CBEs can be understood as a choice between stability and equity on one side, and efficiency, speed, and access to capital on the other.

Table 2. Economic Trade-offs between Cooperatives and CBEs

Dimension	Cooperatives	CBEs
Orientation	Member benefits	Profit & ROI
Decision-making	Democratic (slower)	Centralized (faster)
Access to capital	Limited	Flexible
Stability	High	More fluctuating
Equity	High	Limited
Market response	Gradual	Fast
User protection	Strong	Limited
Expansion	Gradual	Fast

No single form of enterprise is universally superior. Cooperatives and CBEs represent two different approaches to organizing economic activities. The choice between them depends on priorities: whether to emphasize protection and equity, or efficiency and capital-driven growth.

8. Conclusion

This chapter demonstrates that cooperatives and capital-based enterprises (CBEs) are both forms of enterprises operating within a market economy, yet they possess fundamentally different institutional designs. These differences are reflected in ownership structures, control mechanisms, organizational objectives, business strategies, and methods of distributing economic benefits.

Cooperatives, with their dual identity characteristic, integrate members' roles as both owners and users, thereby aligning economic interests within a single institutional framework. This makes cooperatives effective in enhancing collective efficiency, strengthening bargaining power, and maintaining stability and equitable benefit distribution, particularly under imperfect market conditions.

On the other hand, CBEs offer advantages in decision-making efficiency, flexibility in capital mobilization, and faster expansion capabilities. This model is more adaptive in competitive and dynamic environments, although it does not always directly address issues of equity and protection for weaker economic actors.

Therefore, no single enterprise model can be regarded as universally superior. Cooperatives and CBEs represent two distinct approaches to organizing economic activities: cooperatives emphasize member benefits, stability, and equity, whereas CBEs emphasize efficiency, growth, and return on capital.

Accordingly, the selection of an institutional form should be understood as a strategic choice depending on economic objectives, market characteristics, and preferences regarding the balance between efficiency and equity within the economy.

Discussion Questions

1. What are the main differences between cooperatives and CBEs?
2. Why does dual identity become a strength of cooperatives?
3. Under what conditions are cooperatives superior to CBEs?
4. When are CBEs more efficient than cooperatives?
5. How do cooperatives correct market failure?
6. What are the trade-offs between stability and efficiency?
7. Should cooperatives still pursue efficiency? Why?

CHAPTER II

THE IDENTITY OF COOPERATIVES IN THE PERSPECTIVE OF INSTITUTIONAL ECONOMICS

1. Introduction

Cooperatives are an integral part of the market economy system, yet they possess an institutional design different from capital-based enterprises (CBEs). This difference is not merely normative in nature, but fundamentally determines how cooperatives operate, make decisions, and distribute economic benefits.

From the perspective of Douglass C. North (1990), institutions are the "rules of the game" that shape economic behavior. In cooperatives, these rules are reflected in the cooperative identity, which includes definitions, values, and principles. This identity determines who owns the enterprise, how control is exercised, and how economic benefits are distributed.

Unlike CBEs, which are oriented toward capital and profit, cooperatives are oriented toward members as users (user-owned enterprises), meaning that their primary objective is to maximize member benefits. This distinction produces different economic mechanisms, including decision-making processes, surplus distribution, and market relations.

Globally, the identity of cooperatives is formulated by the International Co-operative Alliance (ICA) in the ICA Statement on the Co-operative Identity (1995), which serves as the principal reference for understanding cooperatives in various countries. This chapter systematically discusses the identity of cooperatives, including definitions, values, principles, and their implications from the perspective of institutional economics.

2. Definition of Cooperatives

The definition of cooperatives has evolved alongside the development of institutional economic thought and practice. Historically, one of the earliest references to modern cooperative practices can be traced to the principles established by the Rochdale Society of Equitable Pioneers in 1844. Although the group did not formulate a formal definition, it established fundamental principles—such as open membership, democratic management, and surplus distribution—which later became the conceptual foundation of modern cooperatives (Birchall, 2011).

In cooperative literature, the understanding of cooperatives can be explained through three principal approaches: the essentialist, institutional, and nominalist approaches (Hanel, 1985). The essentialist approach views cooperatives based on the principles and values that distinguish them from other forms of enterprises. This approach focuses on the normative identity of cooperatives, such as economic democracy, member participation, and member-service orientation. From this perspective emerged the concept of cooperative identity as formulated in the ICA Statement on the Co-operative Identity in 1995.

The institutional approach defines cooperatives based on their legal status and recognition. According to this approach, an organization is considered a cooperative if it is legally registered and regulated as a cooperative, complies with cooperative law, and can be supervised according to cooperative principles (Münkner, 1985). This approach positions cooperatives as formal institutions within a country's economic and legal system.

In contrast, the nominalist approach defines cooperatives based on socio-economic characteristics and the functional relationship between members and the cooperative enterprise. Under this approach, cooperatives are understood as group-based economic organizations established upon common economic needs and the spirit of self-help (Hanel, 1985). The nominalist perspective emphasizes that cooperatives should not merely be understood as legal enterprises, but as collective economic mechanisms aimed at improving members' welfare.

These three approaches complement one another in explaining cooperative identity. The essentialist approach explains the dimensions of values and principles, the institutional approach explains legal and institutional legitimacy, while the nominalist approach explains economic relationships and the functions of cooperatives in promoting members' interests. Thus, cooperatives are understood not merely as business enterprises, but also as member-based economic institutions with distinctive social, economic, and institutional characteristics.

Efforts to formulate a more systematic definition of cooperatives began to develop in the twentieth century, particularly through the role of the

International Co-operative Alliance (ICA). The most widely used definition today is that contained in the ICA Statement on the Co-operative Identity (1995), namely:

"A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise." (ICA, 1995)

This definition emphasizes several key elements of cooperatives: autonomous association, voluntary membership, common needs, joint ownership, and democratic control. As autonomous associations, cooperatives are independent organizations operated by their members without domination from external parties. Voluntary membership means that individuals are free to join or leave according to their needs and interests. Cooperatives are also oriented toward fulfilling members' common needs through collective ownership and democratic control based on equality of voting rights.

From the perspective of institutional economics, this definition indicates that cooperatives are forms of enterprises with "rules of the game" different from those of capital-based enterprises. As argued by Douglass C. North (1990), differences in institutional design produce differences in economic behavior and outcomes. Therefore, the definition of cooperatives is not merely descriptive, but also determines how cooperatives operate, make decisions, and distribute economic benefits.

In the Indonesian context, the definition of cooperatives cannot be separated from the interpretation of Article 33 paragraph (1) of the 1945 Constitution, which states that the national economy shall be organized as a common endeavor based upon the principle of familyhood. In the official elucidation of the Constitution prior to its amendment, it was explicitly stated that the enterprise structure consistent with this principle is the cooperative. This positions cooperatives as concrete manifestations of an economic system based on togetherness and mutual cooperation.

Within the framework of positive law, Law Number 25 of 1992 concerning Cooperatives defines cooperatives as business enterprises consisting of individuals or cooperative legal enterprises conducting activities based on cooperative principles while simultaneously functioning as people's economic movements founded upon the principle of familyhood.

In the nominalist approach, cooperatives are understood to contain four main elements: cooperative groups, self-help motivation, cooperative enterprises, and members' promotion (Hanel, 1985). First, cooperatives emerge from groups of individuals who share common economic interests and realize that cooperation provides greater benefits than individual competition. Second, there exists self-help motivation, namely members' encouragement to fulfill economic needs through collective efforts and mutual assistance. Third, to support these interests, cooperative enterprises are established as collectively owned and managed economic instruments. Fourth, all cooperative business activities are directed toward improving members' welfare through mutually beneficial business relationships between members and the cooperative enterprise.

The concept of members' promotion indicates that cooperatives are not oriented solely toward maximizing corporate profit, but rather toward enhancing members' economic benefits. Therefore, cooperatives are often referred to as user-owned enterprises, namely enterprises owned by the users of their own services. Within this structure, members play dual roles as both owners and users of services (dual identity), so that the cooperative's business objectives are directed toward maximizing member benefits rather than maximizing returns to capital owners.

Although the wording of the cooperative definitions according to the ICA and Indonesian Cooperative Law is not entirely identical, both share the same substance. In both perspectives, cooperatives are understood as user-owned enterprises democratically controlled to fulfill common economic needs. Thus, cooperatives are positioned as business enterprises oriented toward member service rather than toward maximizing returns to capital owners.

3. Cooperative Principles

Cooperative principles are the fundamental rules used in conducting the daily activities of cooperatives, whether in organizational matters, economic activities, or relationships among members. As stated by the International Cooperative Alliance (ICA), cooperative principles function as guidelines for implementing cooperative values such as self-help, democracy, equality, and solidarity in practical life. Law No. 25 of 1992 also serves as the legal foundation for cooperative operations in Indonesia. The following table shows the differences and similarities between cooperative principles according to international standards and national regulations.

Table 3. Comparison of Cooperative Principles: Law No. 25/1992 and ICA (1995)

Principle Aspect	Principles According to Law No. 25/1992	Principles According to ICA (1995)
Membership	Membership is voluntary and open	Voluntary and open membership
Organizational Democracy	Management is conducted democratically	Democratic member control
Member Economic Participation	Distribution of surplus proportional to members' business participation and limited return on capital	Member economic participation
Independence / Autonomy	Independence	Autonomy and independence
Education	Cooperative education	Education, training, and information
Cooperation among Cooperatives	Cooperation among cooperatives	Cooperation among cooperatives
Concern for Community	(not explicitly regulated in the list of principles)	Concern for community

Operational Implementation of the Principle of Voluntary and Open Membership

Voluntary membership indicates that individuals join cooperatives because they obtain greater economic benefits compared to transacting individually in the market, such as better selling prices, cheaper inputs, and market certainty. Conversely, obstacles such as weak governance, uncompetitive prices, or low trust reduce the willingness to join.

The open nature of membership enables the addition of members, thereby increasing collective transaction volume. This increase in scale lowers average costs through the distribution of fixed costs, enabling cooperatives to offer more competitive prices. This is the mechanism of economies of scale, whereby greater member participation leads to greater efficiency and larger economic benefits for members.

Unlike cooperatives, in capital-based enterprises (CBEs), entry access generally requires ownership of capital or shares, which is not equally distributed among individuals and may restrict participation. Ownership in CBEs tends to be oriented toward capital accumulation and control rather than service usage. Consequently, economic participation does not always align with ownership, and benefits are more determined by the amount of capital owned rather than involvement in business activities.

Thus, cooperatives provide access based on user participation, whereas CBEs provide access based on capital ownership, resulting in different dynamics of scale and benefit distribution.

Operational Implementation of the Principle of Democratic Control

Cooperatives become preferred choices when economic actors desire equal control based on membership rather than capital ownership. Through the principle of one member, one vote, every member possesses equal voting rights, ensuring that business decisions directly reflect users' interests.

Economically, the control structure of a cooperative is membership-based and can be represented as:

$$C_i = \alpha A_i$$

where $C_i$is the control right of member i, $A_i$is membership status (one member, one vote), and $\alpha$is the control distribution parameter. Therefore, control is allocated based on membership rather than capital ownership. This means that control derives from membership rather than capital. This structure aligns the roles of owner and user (dual identity), reduces conflicts of interest, and directs organizational objectives toward maximizing member benefits.

Conversely, the control structure of a capital-based enterprise (CBE) can be represented as:

$$C_i = \alpha K_i$$

where C_i is the control right of owner i, K_i is the capital contribution of owner i, and $\alpha$is the control distribution parameter. This formulation reflects the principle of *one share, one vote*, whereby greater capital ownership confers greater control rights. As a result, decision-making power tends to be concentrated among major shareholders, and the enterprise is primarily oriented toward maximizing returns on invested capital.

The principles of autonomy and independence ensure that cooperatives do not become instruments serving the interests of external parties, whether governments or businesses. From an economic perspective, this principle maintains preference alignment, namely the alignment of objectives between the owners of the enterprise and the users of its services. In cooperatives, members play a dual role as both owners and users; therefore, user preferences and organizational preferences become identical. The literature describes this phenomenon as preference alignment through user-ownership, whereby organizational decisions (pricing, quality, and surplus distribution) are directed toward maximizing consumer welfare.

In contrast, in Capital-Based Enterprises (CBEs), the separation between investors as controllers and users as consumers creates a structural misalignment of preferences. In such organizations, investors focus on maximizing profits, while the enterprise has the authority to determine prices without user control. Consequently, all profits generated accrue to investors as shareholders.

The principles of autonomy and independence are crucial for business sustainability. According to these principles, external assistance, whether from the government or other parties, should function as a complement rather than a substitute for member participation. From the perspective of institutional economics, this arrangement is important for preventing incentive misalignment and structural dependency that can weaken an organization's internal discipline (North, 1990). The values of self-help and personal responsibility serve as mechanisms for reducing the free-rider problem, which frequently arises in organizations based on collective ownership.

Example

A farmers' cooperative establishes a stable purchasing price for rice grain to protect the incomes of its members. However, when the cooperative faces external intervention—for example, pressure to purchase grain below the established price for certain interests—its business decisions no longer reflect the interests of its members. As a result, member incentives become distorted, participation declines, and the cooperative's sustainability is weakened.

Conversely, a cooperative that maintains its independence will ensure that pricing decisions and business policies continue to favor members, thereby preserving incentive alignment and strong economic participation.

Operational Implementation of the Principle of Education, Training, and Information

In the marketplace, users often occupy a disadvantaged position due to information asymmetry, such as non-transparent product quality, unclear pricing, and high switching costs. These conditions limit users' rationality and allow businesses to extract excessive benefits.

The cooperative principle of education, training, and information serves to correct these conditions by improving members' literacy regarding prices, quality, and cost structures. Transparency enables members to make more rational decisions and better understand surplus generation and benefit distribution.

Table 4. Impact of Information Transparency on Rationality and Benefit Distribution: Cooperatives vs. CBEs

Aspect	Cooperative	Capital-Based Enterprises (CBEs)
Product Information	Transparent	Non-transparent
Price Information	Cost structure disclosed	Hidden mark-up
Surplus Information	Accumulated by members	Accumulated by investors
User Rationality	High	Low
Surplus Distribution	Returned to members	Extracted by investors

As members become more knowledgeable, opportunities for information exploitation diminish. Surplus does not leak to external parties but instead returns to members through more efficient pricing and participation-based distribution. Thus, this principle is not merely normative but also serves to maintain economic efficiency and fairness within cooperatives.

Operational Implementation of the Principle of Cooperation Among Cooperatives

Cooperatives build competitive advantage through collaboration rather than internal competition. Through cooperation among cooperatives—in the form of networks, federations, or partnerships—they can achieve economies of scale, economies of scope, and coordination efficiencies that would be difficult to attain individually. The result is lower costs, expanded market access, and stronger bargaining power, while preserving democratic principles and member orientation.

Illustrative Examples

1. Joint procurement. Several cooperatives purchase fertilizer collectively, reducing the price from IDR 100,000 to IDR 90,000 per sack.
2. Shared infrastructure. Several cooperatives jointly build a warehouse, reducing investment costs per cooperative.
3. Collective branding and marketing. Cooperatives use a common brand, increasing product selling prices.
4. Market information sharing. Cooperatives exchange price and demand data, enabling more optimal sales decisions.
5. Joint distribution. Cooperatives establish a shared distribution center, reducing logistics costs per unit.
6. Inter-cooperative integration. Production cooperatives collaborate with financing and marketing cooperatives, increasing product value-added.

In contrast, Capital-Based Enterprises (CBEs) tend to compete directly to maximize market share and profits. Such competition often encourages winner-takes-most strategies, placing smaller firms at risk of elimination.

Thus, cooperatives foster a cooperative economy, whereas Capital-Based Enterprises (CBEs) tend to create a competitive economy. Cooperation among cooperatives serves as a mechanism for strengthening scale and efficiency without undermining one another, while ensuring that economic benefits continue to flow back to members.

Operational Implementation of the Principle of Concern for Community: Positive Externalities

The principle of concern for community emphasizes that cooperatives are closely connected to their socio-economic environment. Cooperatives tend to strengthen local economic bases through job creation, stabilization of input and output prices, expanded access to economic services, and improved resource sustainability. Furthermore, cooperatives maintain economic activities in areas often underserved by mainstream commercial enterprises and protect groups or sectors with weak bargaining positions in the marketplace.

Illustrative Example

A cooperative allocates 5% of its business surplus to educational and social activities within the village. These funds are used for entrepreneurship training, assistance to members experiencing difficulties, and community empowerment initiatives. Consequently, cooperatives pursue not only economic gains but also generate significant social benefits for surrounding communities.

4. Cooperative Values

Cooperative values refer to a set of fundamental and ethical values that serve as the normative foundation for cooperative identity, objectives, and practices. Cooperatives differ from Capital-Based Enterprises (CBEs) because they adhere to these values as behavioral guidelines for both managers and members. The International Cooperative Alliance (ICA, 1995) identifies the core cooperative values as self-help, self-responsibility, democracy, equality, equity, and solidarity, together with ethical values such as honesty, openness, social responsibility, and caring for others (ICA, 1995). These values demonstrate that cooperatives are not established primarily to accumulate capital or generate large profits but rather to promote cooperation, participation, and collective ownership.

Cooperative Value: Self-Help

Self-help reflects the ability of members to meet their needs and solve their economic problems through collective action within the cooperative. This value is rooted in the tradition of collective self-provisioning, whereby groups with limited bargaining power improve their economic conditions through cooperation and solidarity.

Cooperative Value: Self-Responsibility

Self-responsibility emphasizes that each member is responsible for the success of the cooperative through conscious and active participation in decision-making, oversight, and fulfillment of their obligations as both owners and users. Members are considered integral parts of the organization and are collectively responsible for its performance and sustainability (Chaddad & Iliopoulos, 2013). They are neither passive shareholders nor detached consumers.

Cooperative Value: Democracy

The principle of one member, one vote demonstrates democratic control of the enterprise by its members. Influence is determined by participation and use rather than by capital ownership. This value distinguishes cooperatives from Capital-Based Enterprises (CBEs), where voting rights are based on share ownership.

Cooperative Value: Equality

Equality signifies that every cooperative member holds the same position within the organization, with equal voting rights and access to services. This value prevents domination by any single party and ensures that cooperative benefits are distributed fairly among all members, regardless of capital contribution or social status.

Cooperative Value: Equity

Equity emphasizes fairness in the distribution of benefits, access, and services. In practice, equity is reflected in the Net Surplus Distribution (NSD), whereby the cooperative's Net Surplus (SHU) is allocated primarily according to members' participation or transactions rather than capital ownership, as is the case in Capital-Based Enterprises (CBEs).

Cooperative Value: Solidarity

Solidarity reflects the spirit of mutual support and cooperation in pursuing shared objectives that cannot be achieved individually. It strengthens the collective capacity of cooperatives through risk sharing, resource sharing, and joint action in responding to market dynamics.

5. Ethical Values

In institutional literature, ethical values are understood as a set of behavioral standards that encourage collective action and shape the expectations of economic actors (Ostrom, 1990; Etzioni, 1988). Unlike instrumental values, ethical values are not solely focused on achieving short-term economic goals. Rather, they strengthen social coordination through trust, commitment, and shared responsibility. Within organizations, ethical values reduce the costs of formal contracting and monitoring (Williamson, 1985).

The International Cooperative Alliance (ICA, 1995) places ethical values at the core of cooperative identity, alongside the definition and principles of cooperatives. These ethical values—including honesty, openness, social responsibility, and caring for others—demonstrate that cooperatives operate within markets based on social norms rather than purely on price mechanisms.

Ethical Value: Honesty

Honesty reflects the cooperative's commitment to integrity in organizational management and all transactions. Honesty fosters trust among members and external stakeholders and serves as the foundation of democratic organizations that depend on member participation and control.

Ethical Value: Openness

Openness refers to transparent information sharing, reporting, and decision-making processes within cooperatives. It reduces information asymmetry and monitoring costs, thereby enhancing governance quality and organizational accountability.

Ethical Value: Social Responsibility

Social responsibility signifies that cooperatives are accountable not only to their members but also to the surrounding social and economic environment. This principle promotes public value creation and strengthens community economic resilience, particularly during times of crisis.

Ethical Value: Caring for Others

Caring for others reflects social empathy and concern for disadvantaged members and groups. It reinforces the cooperative's role as an instrument for safeguarding economic welfare and building solidarity-based communities.

Ethical values play a strategic role in cooperatives. Institutionally, cooperatives rely on democratic member control, economic participation, and repeated interactions among members. Ethical values influence how cooperatives distribute surplus and define business success. Cooperatives direct surplus toward improving user welfare, strengthening communities, and ensuring long-term economic sustainability.

Furthermore, ethical values serve as institutional mechanisms for reducing three common forms of transaction costs in economic organizations:

1. Information costs
2. Monitoring costs
3. Enforcement costs

6. Conclusion

This chapter emphasizes that cooperative identity constitutes the institutional foundation that fundamentally distinguishes cooperatives from Capital-Based Enterprises (CBEs). Through globally recognized definitions, values, and principles, cooperatives establish an economic system oriented toward member participation, democracy, and equitable benefit distribution.

From the perspective of institutional economics, cooperatives demonstrate that organizational design influences behavior and economic outcomes. Member-based ownership structures, democratic control, and participation-based surplus distribution generate incentive configurations that differ significantly from those of capital-based firms.

The implementation of cooperative principles—such as open membership, democratic control, economic participation, independence, education, cooperation, and concern for community—demonstrates that cooperatives are not merely normative organizations but also effective economic mechanisms for improving efficiency, reducing inequality, and strengthening community-based economies.

Therefore, cooperatives are not simply an alternative business form but a unique institutional design that integrates economic efficiency with distributive justice within a market economy.

Discussion Questions

1. What is meant by cooperative identity?
2. Why is a cooperative referred to as a user-owned enterprise?
3. What are the main differences between cooperatives and Capital-Based Enterprises (CBEs)?
4. How do cooperative principles influence economic behavior?
5. Why are values important in cooperative institutions?
6. What is the function of the ICA 1995 principles in cooperative practice?
7. Are cooperatives more efficient than Capital-Based Enterprises (CBEs)? Under what conditions?
8. What advantages do cooperatives have in imperfect markets?

CHAPTER III

FORMS OF COOPERATIVES

1. Introduction

The form of a cooperative is an important aspect in understanding how cooperatives function as business actors within a market economy. Cooperatives do not merely exist as small-scale local organizations, but have evolved into various institutional forms—ranging from primary cooperatives and secondary cooperatives to federative networks and modern business groups.

These different forms reflect institutional strategies in responding to members' needs, market dynamics, and demands for efficiency. From the perspective of institutional economics, the form of a cooperative determines the ownership structure, decision-making mechanisms, economic functions, scale of operation, and bargaining position in the market.

This chapter discusses cooperative forms through three main approaches: (1) membership level, (2) patterns of business integration (horizontal and vertical), and (3) the dynamics of cooperative development, including network models and the phenomenon of leapfrogging. Through this framework, cooperatives are understood as adaptive institutions capable of transformation, rather than merely static organizations.

2. Definition and Analytical Framework of Cooperative Forms

In an organizational context, form refers to the way an institution is structured, how membership is organized, and how it is connected to other units. In cooperative studies, the form of a cooperative refers to the institutional structure of cooperatives based on membership composition, organizational level, and coordination patterns. Thus, the form of a cooperative explains who its members are (individuals or cooperatives), how inter-unit relationships are established, and at what level the cooperative operates.

In international literature, variations in cooperative forms have implications for operational scale, market integration, management professionalization, bargaining power, and competitiveness within the modern economy (Chaddad & Cook, 2004; Birchall, 2013). Cooperatives do not exist in a single format. Instead, they develop into various institutional forms in response to members' needs, market structures, economies of scale, and organizational efficiency demands. Therefore, cooperative forms are not merely administrative or legal categories, but institutional instruments designed to strengthen collective economic capacity.

To understand cooperative forms systematically, this chapter employs three analytical variables:

a. Ownership and membership structure, which explains who owns the cooperative and who holds membership status, whether individuals, cooperative legal enterprises or federative associations. This dimension is important because it determines decision-making patterns, benefit distribution, and the level of participation in organizational governance.
b. Economic and operational functions, referring to the role of cooperatives in economic activities, such as input procurement, production processes, product marketing, financial service provision, as well as representation and advocacy functions. This dimension demonstrates how cooperatives create economic value for their members.
c. Scale of operation and bargaining position, referring to the extent to which cooperative business activities operate at local, regional, national, or international levels, as well as the strength of the cooperative's capacity to negotiate, access markets, and compete with other business actors.

These three dimensions demonstrate that cooperative forms are not merely organizational labels, but institutional designs that influence cooperative performance, competitiveness, and sustainability. Through this framework, the discussion of cooperative forms goes beyond formal classification and evaluates how organizational structures shape the cooperative's ability to achieve its members' economic goals.

One of the most common approaches in cooperative literature is the classification of cooperative forms based on membership level. This approach focuses on who becomes the principal member at each organizational level: individuals, primary cooperatives, cooperative federations, or cross-sector associations. The higher the institutional level, the greater the capacity for coordination, representation, and integration of shared interests.

This typological approach is widely used by the International Cooperative Alliance, the International Labour Organization, and various international cooperative studies. Based on this approach, cooperative structures are classified into primary cooperatives, secondary cooperatives, tertiary cooperatives, and, in some cases, apex organizations when cooperative networks are organized across sectors and regions (ICA, 2016; Birchall, 2013; ILO, 2022).

Thus, membership becomes the main analytical unit for understanding cooperative forms. Cooperatives are viewed not merely as single business enterprises, but as hierarchical organizational systems that enable collective coordination within the economy.

Table 5. Institutional Hierarchy of Cooperatives and Their Main Functions

Level	Member Unit	Institutional Form	Main Function
Primary	Individuals	Primary cooperative	Direct services to members
Secondary	Cooperatives	Cooperative union / secondary cooperative	Integration of operational functions
Tertiary	Sectoral federations	Cooperative federation	National-level sectoral representation
Quaternary (optional in literature)	Cross-sector federations	Apex organization	Policy advocacy and standardization

(ICA, 2016; Birchall, 2013; ILO, 2022)

3. Primary Cooperatives

Primary cooperatives represent the most basic form in the cooperative organizational structure. Their membership consists directly of individuals or households, so the relationship between owners, service users, and decision-makers exists within the same organizational sphere. Consequently, primary cooperatives become the institutional units closest to the economic needs of their members.

The main function of primary cooperatives is to provide direct economic services to members. These services may include savings and loans, procurement of goods, provision of production inputs, marketing of products, simple processing, and consumer services. In practice, primary cooperatives function as collective instruments enabling members to obtain cheaper, easier, and fairer access than if they transacted individually in the market.

In general, primary cooperatives possess several characteristics. First, economic relationships are based on direct service, meaning members transact directly with the cooperative. Second, the scale of business and transactions is generally relatively small because the membership base remains limited. Third, market orientation is usually local or community-based. Fourth, organizational governance tends to rely on direct interaction among members, making participation and democratic control easier to implement. Fifth, capital mainly originates from member savings and retained surplus earnings.

Illustrative Example

A group of 50 vegetable farmers establishes a local primary cooperative to collectively procure seeds and pesticides, reducing the cost of farming input packages from IDR 500,000 to IDR 450,000 per farmer. The cooperative also markets members' produce directly to modern retail outlets at IDR 6,000 per kilogram, compared to the IDR 5,000 per kilogram previously offered by middlemen. As a result, production costs decrease, selling prices improve, and business decisions are made democratically by the members, thereby strengthening both the economic benefits and the governance role of the cooperative..

From the perspective of transaction cost economics, primary cooperatives possess advantages because they are able to reduce coordination costs at the user level. This occurs because the distance between owners, users, and organizational controllers is very close, making information easier to obtain and supervision simpler. However, primary cooperatives also face limitations in achieving economies of scale, management professionalization, and bargaining power when dealing with larger markets or large-scale business actors (Hansmann, 1996; Milgrom & Roberts, 1992).

4. Secondary Cooperatives

Secondary cooperatives are cooperatives whose members consist of primary cooperatives rather than individual persons. This form emerges when several primary cooperatives join together to carry out business functions collectively, particularly functions that are difficult, costly, or inefficient if performed independently. Therefore, secondary cooperatives serve as instruments of consolidation to enlarge business scale, improve efficiency, and strengthen the competitiveness of their members.

In general, secondary cooperatives have several characteristics. First, their membership consists of primary cooperatives. Second, their business scale is larger because they aggregate transaction volumes from numerous members. Third, management tends to be more professional because business activities are more complex. Fourth, market orientation is broader, covering regional, national, and even export markets. Fifth, their primary functions are coordination, integration, and collective efficiency.

In practice, secondary cooperatives often undertake activities such as large-scale input procurement, shared processing facilities, centralized marketing, logistics, distribution, and technical service provision. For example, several dairy farmer cooperatives from different regions may establish a secondary cooperative to purchase animal feed wholesale, utilize shared quality-testing laboratories, develop collective branding, and negotiate contracts with milk processing industries. Through this mechanism, average costs can be reduced and bargaining positions in the market become stronger.

In cooperative literature, strengthening cooperative enterprises—including secondary cooperatives—can be achieved through horizontal integration, vertical integration, or a combination of both.

Horizontal integration refers to cooperation among cooperatives operating at the same level (for example, primary cooperatives with other primary cooperatives, or secondary cooperatives with other secondary cooperatives) within similar sectors. The objective is to consolidate business volume in order to achieve economies of scale, reduce costs, and enhance bargaining power (Sexton & Iskow, 1988; Bijman et al., 2012).

Vertical integration refers to cooperation among cooperatives across levels or the development of businesses along the value chain, both upstream (such as input procurement and production) and downstream (such as processing, distribution, and marketing). Through this integration, cooperatives can capture added value previously enjoyed by intermediaries (Royer, 1999; Cook & Chaddad, 2004).

In addition, practice has also developed forms of hybrid integration, which combine horizontal and vertical integration. For example, several primary cooperatives may establish a secondary cooperative (horizontal integration), after which the secondary cooperative develops processing and marketing units (vertical integration). This model enables cooperatives to build more integrated business systems from upstream to downstream activities.

From the perspective of institutional economics, such integration functions to reduce transaction costs, particularly information search and negotiation costs, because relationships with suppliers, buyers, and business partners are organized collectively (Oliver E. Williamson, 1985; Hendrikse & Veerman, 2001). Thus, secondary cooperatives function as mechanisms of collective coordination that strengthen the bargaining position of primary cooperatives within the value chain while simultaneously improving economic efficiency.

5. Tertiary Cooperatives

At the tertiary level, cooperative federations function to represent the interests of specific sectors at the national level. Tertiary cooperatives are sectoral or regional coordinating organizations that bring together secondary cooperatives within a unified institutional representation system. At this level, the primary function of cooperatives no longer focuses on providing direct economic services, but shifts toward coordinative and regulatory activities necessary to maintain the consistency and sustainability of the cooperative system.

These strategic functions include the standardization of quality and processes, coordination of sectoral policies, provision of market information, representation of sectoral interests, as well as public advocacy and regulatory engagement (Birchall & Ketilson, 2009; Bijman et al., 2012; ICA, 2016).

As enterprises operating at a higher level of aggregation, tertiary cooperatives strengthen the cooperative system through the unification of sectoral identity, harmonization of contracts among primary and secondary cooperatives, and integration of information across regions or value chains. These functions are important in enhancing standard compatibility, strengthening bargaining positions in market negotiations, and increasing the representative capacity of cooperatives toward governments, regulators, and international markets (Sexton & Iskow, 1988; Royer, 1999). Thus, tertiary cooperatives can be understood as institutional coordination nodes that bridge the gap between the micro-level operations of primary cooperatives and macro-level policy structures at the national or regional level.

6. Apex Organizations

At the highest institutional level, cooperative systems may be organized in the form of federations or apex organizations (also referred to as apex bodies), namely peak organizations that function as cross-sector representatives at national and international levels. Unlike tertiary cooperatives, which are sectoral in nature, apex organizations perform systemic coordination functions that include policy advocacy, institutional standardization, development of legal frameworks, production and dissemination of market information, as well as economic diplomacy and external relations (ICA, 2016; ILO, 2022). Within the global institutional architecture, apex organizations also serve as connecting nodes between national cooperative systems and international cooperative networks such as the ICA (International Cooperative Alliance), WOCCU (World Council of Credit Unions), and other sectoral federations (Birchall, 2013).

Meanwhile, apex organizations perform cross-sector functions such as policy advocacy, standardization, and national as well as international representation.

The need for apex organizations arises because primary and secondary cooperatives generally lack the political representation capacity and institutional coordination required within public policy arenas. Through the consolidation of collective voices, apex federations strengthen the legitimacy of cooperatives in policymaking processes, particularly concerning finance, taxation, trade regulations, strategic commodity standards, and corporate law (ILO, 2022). In addition to representation functions, national federations may also engage in export promotion, the establishment of financing or guarantee institutions for the cooperative sector, development of data and statistical systems, and integration of cooperatives into regional and global value chains. In the context of the modern economy, cooperative federations contribute to building the infrastructural power of cooperatives—namely, the institutional capacity to access markets, technology, finance, and regulatory instruments—so that cooperatives are able to compete with Capital-Based Enterprises (CBEs).

This model is commonly found in the cooperative systems of advanced economies such as Switzerland, Germany, the Netherlands, Denmark, and South Korea, where cooperative federations perform strategic functions in market integration, quality standardization, investment coordination, and sectoral advocacy within national and multilateral policy arenas (Birchall & Ketilson, 2009; Chaddad & Iliopoulos, 2013). Therefore, apex organizations are not merely representative units, but institutional pillars that enable cooperative systems to operate as integral components of the modern economy rather than peripheral enterprises within market structures.

By observing the institutional structure of cooperatives from the primary level to the apex level, it becomes evident that the modern cooperative system is not simply a collection of membership-based enterprises, but rather a multi-level coordination architecture within the economy. From the perspective of institutional economics, this architecture operates through two main coordination mechanisms: horizontal integration and vertical integration (Williamson, 1985; Hendrikse & Veerman, 2001). Horizontal integration occurs among cooperatives with similar functions and objectives, enabling the consolidation of production, procurement, and distribution capacities on a broader scale. Meanwhile, vertical integration connects cooperatives across different stages of the value chain—from input provision, production, processing, and marketing to financing—thereby creating deeper coordination structures along the supply chain.

These two forms of integration generate significant economic consequences, including the ability to achieve economies of scale and economies of scope, strengthen bargaining positions in the market, improve access to marketing networks, enhance quality standardization, and facilitate investment coordination among cooperative enterprises. International cooperative literature demonstrates that these integration mechanisms explain the success of cooperatives in advanced economies in entering capital-intensive sectors such as banking, modern retail, energy, and agro-processing—functions that cannot generally be achieved by primary cooperatives individually (Bijman et al., 2012; Birchall & Ketilson, 2009).

Thus, the cooperative structure from the primary level to the apex level is not merely an administrative hierarchy, but an institutional system that enables cooperatives to function as part of the modern economy. This multi-level architecture provides mechanisms for consolidation, coordination, and representation that are necessary to balance Capital-Based Enterprises (CBEs), reduce market failures in sectors where consumers or small producers possess weak bargaining positions, and ensure that the economic value created is redistributed back to users as the owners of the enterprise.

Therefore, the higher the institutional level of cooperatives, the broader the scope of functions they perform: from direct services to members to strategic coordination and systemic representation. This multi-level structure enables cooperatives to achieve collective efficiency, market integration, and bargaining power that would be difficult for primary cooperatives to attain individually.

7. Cooperative Forms in Indonesia

In the Indonesian context, the legal system classifies cooperatives into two main forms: primary cooperatives and secondary cooperatives. Higher-level forms—such as tertiary cooperatives, federations, or confederations—are not recognized as separate legal enterprises, but are positioned as variations of secondary cooperatives (Law No. 25/1992; Mulhadi, 2018).

This configuration produces a relatively compressed institutional structure, in which sectoral and federative coordination mechanisms have not developed optimally. Consequently, the majority of cooperatives remain at the primary level with micro- and small-to-medium-scale business operations and local market orientations, while secondary cooperatives remain limited and have not yet played a strong role as economic aggregators for primary cooperatives.

Most cooperatives operate at the primary level with local, micro- and small-scale orientations and provide basic economic services. According to reports from the Indonesian Central Statistics Agency (BPS), the number of active cooperatives in Indonesia in 2025 reached 222,462 units, the highest figure recorded in the last decade. The largest increase occurred in the same year, mainly driven by the establishment of 83,762 Red-and-White Village/Subdistrict Cooperatives (KDKMP), all of which were categorized as primary cooperatives. This became the main factor behind the sharp increase in the national number of active cooperatives in 2025.

Several primary cooperatives have developed into large-scale cooperatives. Mapping of 300 major primary cooperatives demonstrates highly significant economic potential. Data from 2025 recorded total collective assets of approximately IDR 96.526 trillion, equivalent to 35.08% of total national cooperative assets, with a business volume of IDR 80.845 trillion and involving more than 9 million members. These findings indicate that primary cooperatives in Indonesia can still grow into large economic enterpriseseven though the national federative structure has not yet developed strongly.

8. Credit Union Network Model

The credit union network model demonstrates an example of institutional development that has evolved relatively consistently from the primary to the global level. Unlike many other cooperative sectors, credit unions have developed layered systems that integrate member services, institutional strengthening, and financial system stabilization within an interconnected ecosystem (Branch & Evans, 1999; World Council of Credit Unions).

Table 6. Structure of the Credit Union Network

Level	Institution
Primary	Credit Union / Kopdit
Secondary	Puskopdit (Central Credit Union Cooperative)
Tertiary	Inkopdit (National Credit Union Cooperative)
Asian Regional	Association of Asian Confederation of Credit Unions
Global	World Council of Credit Unions

At the national level, the credit union structure develops hierarchically from primary credit unions (Kopdit), which are connected to Puskopdit as secondary cooperatives, and further to Inkopdit as tertiary cooperatives. This network is then integrated regionally through the Asian Confederation of Credit Unions and globally through the World Council of Credit Unions. This layered structure enables economies of scale, service standardization, and stronger supervision and stabilization mechanisms (Cuevas & Fischer, 2006).

Credit unions provide a concrete example of consistent vertical integration from the local to the global level. At the primary level, Kopdit serves members through savings and loan services as well as economic empowerment programs. At the secondary level, Puskopdit provides management support, auditing, training, and inter-cooperative liquidity services. Meanwhile, at the national level, Inkopdit plays a role in interlending, system strengthening, and member deposit protection.

This layered model demonstrates that cooperatives can develop integrated systems combining local strength with broader institutional support. From the perspective of institutional economics, this network functions to reduce transaction costs, strengthen governance, and enhance the resilience of the cooperative financial system.

9. The Leapfrogging Phenomenon in Cooperatives

In institutional development, leapfrogging refers to a “developmental leap” strategy in which cooperatives do not necessarily pass through hierarchical stages (primary–secondary– tertiary), but instead directly adopt more advanced organizational structures or business models to improve competitiveness. In this context, cooperatives may establish or control non-cooperative enterprises as business vehicles without losing strategic control as owners.

This approach demonstrates that cooperatives do not abandon their identity, but instead undertake institutional innovation. The cooperative structure remains the basis of democratic ownership, while capital-based companies are utilized as instruments for expansion, investment, and market penetration requiring greater flexibility (Birchall, 2013; ICA–Euricse, 2024).

Findings in the World Cooperative Monitor report indicate that many of the world’s largest cooperatives operate in the form of business groups comprising parent cooperatives and controlled non-cooperative enterprises. In fact, non-cooperative companies with controlling ownership by cooperatives are explicitly recognized as part of the global cooperative ecosystem (ICA–Euricse, 2014; 2023).

A classic example is dairy cooperatives in several countries, such as Fonterra in New Zealand, which integrates production, processing, and global distribution. This model enables members to earn income not only from raw materials, but also from value added throughout the value chain.

In general, cooperatives in advanced economies develop through two main pathways. First, through gradual (federative) integration, namely hierarchical development from primary cooperatives to secondary cooperatives and further to national and global levels in order to strengthen scale and coordination. Second, through leapfrogging (direct transformation), namely institutional leaps achieved by establishing business groups or hybrid enterprises, enabling cooperatives to directly access markets, capital, and larger business scales without passing through all organizational stages sequentially. In contrast, cooperatives in many developing countries are still dominated by small-scale primary units that remain unconsolidated, making access to downstream and global markets difficult.

This approach enables cooperatives to adopt institutional forms that are more adaptive to market needs and business scale, while also utilizing modern business instruments such as corporate structures, professional management, joint ventures, and strategic alliances. Business portfolios may be expanded through various enterprises and mechanisms outside the cooperative legal framework, including financial service units, Islamic insurance enterprises, subsidiaries, special purpose vehicles (SPVs), spin-offs, and joint-stock ventures.

In the Indonesian context, leapfrogging practices are beginning to emerge, where cooperatives directly establish capital-based business enterprises (such as limited liability companies/PTs) as commercial vehicles while maintaining cooperative control. This strategy enables cooperatives to access capital, expand business activities, and improve competitiveness without waiting for lengthy federation processes.

10. Conclusion

The form of a cooperative fundamentally represents an institutional design choice for organizing ownership, services, and economic cooperation among members. Cooperatives may evolve from primary units into integrated multi-level structures, depending on the needs for scale, efficiency, and market complexity.

The discussion in this chapter demonstrates that the success of cooperatives is determined not only by the value of solidarity, but also by the ability to build appropriate organizational structures. Horizontal integration strengthens scale and efficiency, vertical integration enables control over value chains, while innovations such as leapfrogging open access to broader markets and capital.

In the Indonesian context, the main challenge lies not in the number of cooperatives, but in strengthening organizational structures and business consolidation. Without strong integration and coordination, cooperatives will struggle to improve competitiveness. Therefore, the development of cooperative forms should be directed toward strengthening collective economic capacity, enabling cooperatives to become major actors within the modern economy.

Discussion Questions

1. What is the main difference between the functions of primary and secondary cooperatives?
2. Why do cooperatives need to develop hierarchical structures?
3. What are the benefits of horizontal and vertical integration?
4. When should cooperatives undertake integration?
5. Why do many cooperatives in Indonesia remain small-scale?
6. What is leapfrogging in cooperatives?
7. Does the number of cooperatives reflect economic strength?

CHAPTER IV

CLASSIFICATION OF COOPERATIVES

1. Introduction

The classification of cooperatives constitutes an important framework for understanding the diversity of cooperative forms, functions, and roles within the economy. Through classification, cooperatives are understood not merely as legal enterprises, but also as economic organizations that can be analyzed based on business functions, sectors of activity, and the ownership structure of their members.

In international practice, cooperative classification is flexible and dynamic. A single cooperative may perform more than one function simultaneously (classification overlap), reflecting the ability of cooperatives to adapt to members' needs and market developments. In Indonesia, cooperative classification is normatively regulated under Law Number 25 of 1992, which emphasizes the economic functions of members. However, developments in institutional practice have shown the emergence of various new models, such as multi-stakeholder cooperatives, region-based cooperatives, and sharia cooperatives that integrate business and social functions.

Therefore, this chapter employs a hybrid approach by combining perspectives of economic function, business sector, and ownership structure in order to provide a more comprehensive understanding of cooperatives as institutional designs that are flexible, adaptive, and continuously evolving in response to members' needs and the dynamics of the modern economy.

2. Conceptual Framework for Cooperative Classification

Within this framework, cooperatives are not understood as single business enterprises, but as institutional configurations with different economic functions within the market system. In the literature, cooperative classification systems generally rest upon three main analytical variables (Zeuli & Cropp, 2004; Birchall, 2013; ICA, 2020): the economic function variable, the sectoral variable, and the ownership structure variable. These three variables help explain the position, role, and characteristics of cooperatives within the economic system in a more structured manner.

The economic function variable explains the role of cooperatives within the value chain of business activities. Through this approach, cooperatives are classified according to their main functions, such as input provision, production, processing, marketing, consumption, financial services, and various supporting services. The focus lies on the economic activities performed and their contributions within the value chain.

The sectoral variable classifies cooperatives according to the economic sectors or industries in which they operate. These include agricultural cooperatives, fisheries cooperatives, energy cooperatives, financial cooperatives, housing cooperatives, health cooperatives, and other sectors. The sectoral approach is useful for understanding industrial contexts, business risks, and the needs for regulation and policy support.

The ownership structure variable distinguishes cooperatives according to who owns the cooperative while simultaneously acting as the primary user of its services. From this perspective, several forms of cooperatives are recognized, including consumer cooperatives, producer cooperatives, worker cooperatives, purchasing cooperatives, and multi-stakeholder cooperatives. This approach emphasizes member identity and their economic relationship with the cooperative as both owners and service users.

Table 7. Classification of Cooperatives Based on Ownership Structure and Residual Claim Holders

Type	Residual Claim Holders
Consumer Cooperative	Consumers
Producer Cooperative	Producers
Worker Cooperative	Workers
Purchasing Cooperative	Small businesses/MSMEs
Multi-stakeholder Cooperative	Mixed groups (producers–workers–consumers)

Through the ownership structure variable, it becomes clearer who is entitled to residual claims, namely the parties who have the right to the cooperative's Net Surplus (SHU) after all obligations have been fulfilled and who may subsequently receive benefits through the Net Surplus Distribution (NSD). Zeuli and Cropp (2004) as well as Vieta (2019) classify cooperatives according to the member groups holding these residual claims. Therefore, this approach is important for analyzing the distribution of economic surplus, member incentives, and cooperative governance design.

The table above presents a classification of cooperatives based on ownership structure and the principal holders of residual claims

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3. Cooperative Classification, Subtypes, Ownership, Justification, and Sectors

In practice, cooperatives may be labeled differently depending on the perspective used. A cooperative may be understood based on who owns it, the economic functions it performs, the business sector in which it operates, or the collective objectives it seeks to achieve. Therefore, the diversity of terminology in cooperative classification often creates terminological confusion. However, these differences are not contradictory; rather, they demonstrate that cooperatives are economic organizations with multiple dimensions of analysis.

In other words, no single classification fully represents all forms of cooperatives. A cooperative may simultaneously be referred to as a producer cooperative from the ownership perspective, a marketing cooperative from the economic function perspective, and an agricultural cooperative from the business sector perspective. Therefore, cooperative classification must be understood contextually, according to the analytical purpose being used. This approach helps readers understand cooperatives not merely as legal categories, but as institutional designs that are flexible and adaptive to members' needs.

Table 8. Cooperative Classification, Subtypes, Ownership, Justification, and Sectors

(Adapted from *Institutions for Collective Action, n.d.*)

Type	Subtype	Ownership	Justification	Sector
Producer Cooperative	Agricultural and agro cooperatives	Agricultural commodity producers, livestock farmers, artisans	Collective collection, storage, processing, and marketing to increase added value and bargaining power	Agriculture, dairy, cash crops, livestock, handicrafts
Consumer Cooperative	Credit cooperatives, food retail cooperatives,	Individuals as users/buyers	Collective purchasing to achieve	Retail, food, financial services, health, housing,

Type	Subtype	Ownership	Justification	Sector
	housing cooperatives, health cooperatives, electricity & telecommunications cooperatives, childcare cooperatives	of goods and services	economies of scale, better prices, and service quality	telecommunications
Worker Cooperative	Worker cooperatives	Workers as owners and managers of the enterprise	Ownership and control by workers to create employment and fair value distribution	Services, manufacturing, technology, food services, cleaning, health, retail
Purchasing & Shared Service Cooperative	Joint purchasing cooperatives, business service cooperatives	Small businesses, independent entrepreneurs, or local organizations	Consolidation of demand and services to increase purchasing power and competitiveness	Procurement, distribution, logistics, business services
Hybrid (Multi-stakeholder) Cooperative	Multi-stakeholder cooperative	More than one member group (producers, consumers, workers, social investors)	Balancing the interests of multiple stakeholders within one cooperative structure	Cross-sectoral

4. Cooperative Classification: International Perspectives

In global literature and practice, cooperative classification is diverse and flexible, making differences in classification approaches common within the cooperative world. Many studies classify cooperatives according to business sectors or specific interest communities, such as agricultural cooperatives, dairy cooperatives, energy cooperatives, housing cooperatives, worker cooperatives, health cooperatives, social cooperatives, and educational cooperatives. These forms have developed extensively in OECD countries, East Asia, and Northern Europe (ILO, 2015; United Nations, 2012; ICA, 2020).

Table 9. Cooperative Classification Based on ICA–Euricse References

Cooperative Type	Basis of Classification	International Reference Examples
Agricultural Cooperative	Food/agricultural sector	Nonghyup (South Korea), Fonterra (New Zealand), Zen-Noh (Japan)
Retail/Consumer Cooperative	Trade & member needs	REWE Group (Germany), Coop Italia
Credit/Financial Cooperative	Member financial services	Crédit Agricole (France), Rabobank (Netherlands)
Housing Cooperative	Housing services	ICA Housing
Worker Cooperative	Worker ownership	Mondragon Corporation (Spain), CICOPA
Health Cooperative	Health services	IIHCO (International Health Cooperative Organisation)
Insurance Cooperative	Risk protection for members	State Farm (USA), Talanx (Germany)

The report of the International Cooperative Alliance (ICA) together with Euricse through the *World Cooperative Monitor (WCM)* constitutes a highly authoritative reference for cooperative classification based on business sectors. Each year, the report maps the Top 300 cooperatives and mutual organizations worldwide and classifies them into major economic sectors such as agriculture, retail trade, financial services, insurance, health, industry, utilities, and others. Thus, the WCM may serve as an empirical basis for classifying cooperatives such as agricultural cooperatives, retail cooperatives, housing cooperatives, credit cooperatives, worker cooperatives, and so forth.

Globally, the total turnover of the world's 300 largest cooperatives and mutuals reaches approximately USD 2.79 trillion. Of this amount, the agriculture and food sector contributes around 35.7%, the insurance sector 31.7%, and the wholesale/retail trade sector approximately 18.0%. These data confirm that cooperatives occupy an important position within the global economic system, particularly in sectors directly related to the needs of society at large.

In the 2025 global ranking, the leading position was occupied by Crédit Agricole from France as the world's largest financial cooperative, followed by State Farm from the United States in the insurance sector, and REWE Group from Germany in the retail sector. In agriculture, prominent large cooperatives include Nonghyup from South Korea, Fonterra from New Zealand, and Zen-Noh from Japan. In the worker cooperative sector, Mondragon Corporation from Spain is the most widely recognized example, while in the housing sector there is OBOS BBL from Norway, and in the health sector Sistema Unimed from Brazil.

Table 10. Ranking of Cooperatives by Cooperative Type (ICA–Euricse, 2025)

Cooperative Type	Basis of Classification	International Reference Example	Country	Description
Agricultural Cooperative	Food/agricultural sector	Nonghyup	South Korea	#4 Global, turnover of USD 61.17 billion
		Fonterra	New Zealand	± USD 13.7 billion
		Zen-Noh	Japan	Assets of ¥1.88 trillion, turnover of ¥6.0 trillion, and approximately 12,500 employees
Retail/Consumer Cooperative	Trade & member needs	REWE Group	Germany	#3 Global, turnover of approximately USD 98 billion
		Coop Italia	Italy	Turnover of €16.6 billion (2024)
Credit/Financial Cooperative	Member financial services	Groupe Crédit Agricole	France	#1 Global, turnover in 2023 of USD 107.42 billion
		Rabobank	Netherlands	± USD 70+ billion
Housing Cooperative	Housing services	OBOS BBL	Norway	Leader in the housing sector
Worker Cooperative	Worker ownership	Mondragon Corporation	Spain	± USD 12–13 billion
Health Cooperative	Health services	Sistema Unimed	Brazil	Leader in the health sector
Insurance Cooperative	Risk protection for members	State Farm	United States	#2 Global
		Talanx	Germany	± USD 50+ billion

These data demonstrate that cooperatives can develop across diverse types. Agricultural cooperatives are strong within global food value chains, retail cooperatives excel in household goods distribution, financial cooperatives dominate banking services, worker cooperatives develop in industrial and service sectors, while insurance and health cooperatives play important roles in social protection.

Thus, cooperative classification is not merely a theoretical concept, but is clearly reflected in the global economic landscape. Cooperatives can become large, professional, and competitive modern economic organizations without abandoning their fundamental principles of shared ownership and member benefit.

5. Cooperative Classification in Indonesia

Within the Indonesian legal system, cooperative classification is regulated under Law Number 25 of 1992 concerning Cooperatives. The law emphasizes that the basis for cooperative classification rests upon similarities in members' activities, interests, and economic needs. According to Article 16 of Law No. 25 of 1992, cooperatives are classified into five main types: (a) consumer cooperatives, (b) producer cooperatives, (c) marketing cooperatives, (d) service cooperatives, and (e) savings and loan cooperatives. Under this approach, cooperative identity is determined according to the primary economic function served for members.

The explanatory notes to Article 16 of Law No. 25 of 1992 further clarify that the basis for determining cooperative type is not the social background, profession, or employment status of members, but rather their shared economic needs. Therefore, groups such as civil servants, military personnel, employees, or professional groups do not constitute separate cooperative types, but may establish cooperatives within one of the legally recognized categories according to their economic needs.

At the same time, Indonesia's cooperative system continues to evolve through the emergence of new cooperative models regulated under derivative regulations outside Law No. 25 of 1992. For example, Government Regulation Number 7 of 2021 strengthened the existence of sharia cooperatives, which had previously developed through technical regulations. Presidential Instruction Number 9 of 2025 introduced the Red-and-White Village/Subdistrict Cooperative (KDKMP) based on village or subdistrict administrative areas. Meanwhile, Regulation of the Minister of Cooperatives and SMEs Number 8 of 2021 provided legal recognition for multi-stakeholder cooperative models.

Table 11. Cooperative Classification and Scope of Activities/Businesses

Cooperative Type	Examples of Activities/Businesses
Consumer Cooperative	Retail store + savings and loan/financing unit + distribution + digital services
Producer Cooperative	Input provision + processing + savings and loan/financing unit + marketing
Marketing Cooperative	Marketing + branding + logistics + export + savings and loan/financing unit
Savings and Loan Cooperative and Credit Cooperative	Savings and loans + credit + digital financial services
Sharia Savings, Loan, and Financing Cooperative	Sharia savings, loans, and financing
Service Cooperative	Service activities: transportation & logistics, management, marketing, tourism, construction, etc.
Microfinance Institution Service Cooperative	Financial services, savings and loans, mentoring
Multi-Stakeholder Cooperative (KMP)	Integration of production–marketing–financing across interests, multipurpose
KDKMP	Retail store + logistics + savings and loan/financing unit + processing + village/subdistrict-based public services, multipurpose

The table above demonstrates that cooperative classification in Indonesia can be understood more comprehensively through a hybrid approach, namely by combining three main variables: economic function, business sector, and ownership structure.

From the perspective of economic function, classification is reflected in the role of cooperatives within the value chain. Producer cooperatives perform functions ranging from input provision, processing, and marketing; marketing cooperatives focus on distribution, branding, and exports; consumer cooperatives serve members' consumption needs; while savings and loan cooperatives, credit cooperatives, and sharia financing cooperatives perform financial intermediation functions. In practice, many cooperatives develop into multipurpose organizations by integrating multiple business functions simultaneously.

From the sectoral perspective, cooperatives reflect the industries in which they operate. Savings and loan cooperatives, credit cooperatives, microfinance service cooperatives, and sharia cooperatives belong to the financial sector; marketing cooperatives belong to the trade sector; producer cooperatives belong to production sectors (such as agriculture or small industries); service cooperatives belong to the service sector; while KDKMP integrates multiple sectors at the village/subdistrict level.

From the ownership structure perspective, cooperatives are distinguished according to who owns the cooperative while simultaneously acting as the primary user of its services. Consumer cooperatives are owned by users of goods, producer cooperatives by producers, and multi-stakeholder cooperatives (KMP) involve more than one stakeholder group. These differences affect benefit distribution and decision-making mechanisms.

Thus, cooperative classification cannot be sufficiently understood from only one dimension. The hybrid approach demonstrates that cooperatives are flexible and adaptive organizations capable of evolving from single-function enterprises into integrated business systems according to members' needs and market dynamics.

However, compared with international practice, cooperative classification in Indonesia remains relatively limited. In many countries, more specific forms are recognized, such as worker cooperatives, agricultural cooperatives, housing cooperatives, energy cooperatives, and multi-stakeholder cooperatives. In Indonesia, these forms are often adjusted into existing categories, potentially obscuring their specific economic functions and institutional identities.

In legal practice, cooperative classification is initially administrative in nature, meaning that it is determined during legal registration and stated in the deed of establishment. Therefore, cooperative names cannot be separated from the cooperative types regulated by legislation. Nevertheless, in practice, various institutional models have developed that are functionally equivalent, even if they are not formally recognized as new cooperative types within regulations.

Once the cooperative type has been determined, cooperative naming becomes more flexible, adapting to member identity, location, business sector, or service characteristics. Consequently, cooperative names often reflect specific professions, regions, or communities, even though legally they remain within one of the officially recognized cooperative categories.

The following table presents examples of the relationship between cooperative types and the naming practices that have developed in Indonesia.

Table 12. Cooperative Types and Examples of Cooperative Names in Indonesia

Type	Examples of Cooperative Names
Consumer Cooperative	Retail/Wholesale Cooperatives, Multipurpose Cooperatives (KSU), Functional Cooperatives (Civil Servants/Employees, Military/TNI, Police), Women's Cooperatives, Youth Cooperatives, Student Cooperatives, Housing Cooperatives
Producer Cooperative	Village Unit Cooperatives (KUD), Indonesian Tempe and Tofu Artisan Cooperative (KOPTI), Agricultural Cooperatives, Plantation Cooperatives, Forestry Cooperatives, Dairy Farming Cooperatives, Fisheries/ Fishermen/Mina Cooperatives
Savings and Loan Cooperative	Savings and Loan Cooperatives (KSP), Credit Cooperatives (Credit Unions)
Sharia Cooperative	Sharia Savings and Financing Cooperatives (KSPPSO) such as Koperasi Benteng Micro Indonesia, BMT Cooperatives, suc as BMT Sidogiri)
Microfinance Service Cooperative	Microfinance Institution Cooperatives (LKM) and Sharia Microfinance Institution Cooperatives
Marketing Cooperative	Marketing Cooperatives
Service Cooperative	Transportation & Logistics Service Cooperatives, Indonesian Taxi Drivers Cooperative (KOSTI), Agricultural & Plantation Service Cooperatives, Health Service Cooperatives, Management Service Cooperatives, Marketing Service Cooperatives, Tourism Service Cooperatives, Construction Service Cooperatives, etc.
Multi-Stakeholder Cooperative	Multi-Stakeholder Consumer Cooperatives, Multi-Stakeholder Producer Cooperatives, Multi-Stakeholder Marketing Cooperatives, Multi-Stakeholder Service Cooperatives
Village/Subdistrict Cooperative	Red-and-White Village/Subdistrict Cooperatives (KDKMP), a nationwide cooperative initiative launched by the Government of Indonesia in 2025.

The table above demonstrates that cooperative names in Indonesia are not always identical to their legal types. Cooperative names may reflect member identity, business sectors, locations, or particular service models, while cooperative types continue to refer to normative categories regulated by law. Thus, classification functions as a legal-formal basis, while naming functions as the operational and socio-economic identity of cooperatives within society.

6. Classification of Sharia Cooperatives

The classification of sharia cooperatives cannot be separated from the framework of *Maqashid Shariah*, which emphasizes the protection of religion, life, intellect, lineage, and wealth. Therefore, sharia cooperatives are not solely oriented toward profit (*tijarah*), but also toward welfare distribution through ZISWAF instruments (zakat, infaq, sadaqah, and waqf). This integration of business and social functions positions sharia cooperatives as socio-business institutions capable of reaching lower-income communities through financing systems that are more equitable and religiously grounded.

From the sectoral perspective, sharia cooperatives in Indonesia have developed strongly within the microfinance sector through KSPPS and BMT institutions. However, their development has now expanded into real sectors such as halal food, sharia tourism, and waqf-based renewable energy. This sectoral specialization allows the use of more appropriate contracts, such as *salam* contracts in agriculture or *istisna* contracts in construction, thereby distinguishing them from conventional cooperatives.

Table 13. Classification of Sharia Cooperatives Based on Ownership Structure and Residual Claims

Type	NSD/ SHU Holders	Contract Principle
Consumer Cooperative	Consumers	*Murabahah*
Producer Cooperative	Producers	*Mudharabah/Musyarakah*
Worker Cooperative	Workers	*Ijarah*
Purchasing Cooperative	MSMEs	*Wakalah*
Multi-Stakeholder Cooperative	Mixed groups	*Multi-contract Syirkah*

Meanwhile, from the ownership perspective, sharia cooperatives emphasize the principles of *amanah* (trustworthiness) and *ukhuwah* (brotherhood). NSD/ SHU (surplus earnings) is not viewed merely as economic profit, but as business outcomes free from *riba* (usury), *gharar* (uncertainty), and *maysir* (gambling/speculation). Therefore, the governance of sharia cooperatives requires the presence of a Sharia Supervisory Board (*Dewan Pengawas Syariah/DPS*) to ensure that all activities remain compliant with sharia principles.

In practice, sharia cooperatives may carry more than one label simultaneously, depending on the analytical perspective used. A cooperative may be referred to as a producer cooperative from the ownership perspective, a halal distribution cooperative from the economic function perspective, and an agriculture-based cooperative using *salam* contracts from the business sector perspective. Therefore, the classification of sharia cooperatives should be understood contextually, as an institutional design that is flexible, adaptive to members' needs, and aligned with the principles of *muamalah* and *tauhid* values within economic activities.

It is important to note that within the sharia cooperative ecosystem, the boundaries between one cooperative type and another often become fluid due to the use of hybrid contracts (*al-uqud al-murakkabah*). For example, a sharia consumer cooperative may simultaneously provide financing functions through *murabahah* contracts while also offering service functions through *ijarah* contracts within a single institutional framework. This flexibility does not eliminate the identity of the cooperative type, but rather demonstrates the ability of sharia cooperatives to respond to complex member needs while remaining within the framework of Islamic law (Seibel & Mohammad, 2022). Ultimately, this classification functions as an operational guide enabling management to determine the most appropriate risk profiles and profit-sharing schemes for each stakeholder group.

Furthermore, developments in information technology have given rise to new subtypes of sharia cooperatives based on digital platforms (*digital-based cooperatives*). Cooperatives within this category often fall under the service or joint procurement sectors, but with greater efficiency in sharia supervision. Technological integration facilitates the Sharia Supervisory Board (DPS) in conducting real-time compliance audits on transactions being carried out (Asikin & Nurzaman, 2022). The objective is to strengthen the justification that future classifications of sharia cooperatives will increasingly focus on service speed and transparency in NSD/ SHU distribution, without neglecting fundamental principles such as justice, openness, and the prohibition of non-sharia elements in every line of business.

The classification of sharia cooperatives is significantly influenced by affirmative government policies and the role of relevant authorities in supporting the development of the national halal industry (Siregar & Tanjung, 2023). Strategic sectors such as Muslim-friendly tourism, halal logistics, and sharia pharmaceuticals have now become new growth areas for producer and service-based sharia cooperatives. Through the integration of halal certification standards into cooperative operations, such classifications function not only as internal categorizations, but also as branding strategies to strengthen public trust and improve the competitiveness of sharia cooperatives in global markets. This is consistent with the vision of sharia cooperatives as key pillars in realizing inclusive and sustainable economic justice in Indonesia.

7. Conclusion

The classification of cooperatives is fundamentally not merely an administrative categorization, but a way of understanding how cooperatives perform economic functions, build ownership relationships, and create benefits for their members. Through the approaches of economic function, business sector, and ownership structure, cooperatives can be understood as flexible organizations capable of evolving according to members' needs and changes in the business environment.

International experience demonstrates that cooperatives can grow into various forms, ranging from agricultural, financial, and worker cooperatives to multi-stakeholder and sharia cooperatives. In Indonesia, the development of regulations and institutional practices also indicates an increasingly open direction toward new cooperative models that are more integrated and innovative.

Therefore, cooperative classification should be understood as a dynamic spectrum rather than a rigid category. This approach is important to ensure that cooperatives remain relevant, capable of expanding business scale, strengthening competitiveness, and maintaining their orientation toward member welfare, economic justice, and social sustainability.

Discussion Questions

1. What is meant by cooperative classification?
2. Why is cooperative classification important in institutional and economic analysis?
3. What is the difference between the approaches of economic function, business sector, and ownership structure in cooperative classification?
4. Why can a single cooperative belong to more than one classification category?
5. What is the relationship between cooperative type and cooperative naming practices in Indonesia?

6. What are the strengths and limitations of the current cooperative classification system in Indonesia?
7. How has international cooperative classification practice developed compared to Indonesia?
8. What roles do multi-stakeholder cooperatives and sharia cooperatives play in the development of modern cooperative models?
9. Why are sharia cooperatives not solely profit-oriented, but also socially oriented?
10. Why should cooperative classification be understood as a flexible and adaptive spectrum?

CHAPTER V

COOPERATIVE MEMBERSHIP

1. Introduction

Membership is the defining characteristic of a cooperative and the key element that distinguishes it from other forms of business organizations. In a cooperative, members are not merely registered participants; they voluntarily associate to meet common economic, social, and cultural needs through an enterprise that is jointly owned and democratically governed. As a result, membership embodies not only economic interests but also participation, responsibility, and collective identity.

Unlike customers in conventional firms, cooperative members have a dual role as both owners and users of the organization. This unique relationship places members at the center of cooperative governance and business activities. Consequently, the success of a cooperative depends not primarily on the amount of capital it possesses, but on the quality of its membership and the extent of member participation (Chaddad & Cook, 2004; Hansmann, 1996).

This membership-based structure requires members to contribute not only capital, but also active participation in economic transactions, organizational decision-making, and the preservation of cooperative values and ethics. Cooperatives can function effectively only when members fulfill these interconnected roles.

Accordingly, this chapter examines membership as the foundation of the cooperative economic system. It discusses the owner–user relationship, member participation, cooperative values and ethics, members' voice and voting rights, and the economic rights derived from membership. Through this discussion, readers will gain a deeper understanding of why membership is the primary determinant of cooperative sustainability and success.

2. Theoretical Model: The Three-Pillar Cooperative Model

Cooperatives cannot be understood merely as ordinary business enterprises, but rather as membership-based economic systems that can only function effectively when members fully perform their roles. Within the framework of the Three-Pillar Cooperative Model, cooperatives are built upon three interrelated and mutually reinforcing pillars: (1) members as both owners and users of the cooperative (the owner–user relationship), (2) member participation as the driving force of organizational and business activities, and (3) cooperative values and ethics as the normative foundation guiding decision-making and collective action. These three pillars are inseparable and interdependent. A weakening of any one pillar may undermine the effectiveness, sustainability, and overall performance of the cooperative.

In cooperatives, members possess a dual identity as owners and service users. Unlike conventional business enterprises that separate owners (investors) from customers, cooperatives integrate both roles within the members themselves. Consequently, control rights are determined not by the amount of capital owned, but by the democratic principle of "one member, one vote," while economic benefits are obtained from the level of member participation in business activities (Chaddad & Cook, 2004; Nilsson, 2001). This structure creates a unique incentive system in which economic value is generated from members' activities rather than from capital accumulation. These fundamental differences can be seen in the following table:

Table 14. Owner–User Relations in Cooperatives

Aspect	Cooperative (Owner–User)	Capital-Based Enterprises /CBEs) (Separated)
Position of Actors	Member = owner + user	Owner ≠ user
Economic Rights	Ownership + patronage integrated	Ownership dominant
Source of Benefits	From usage (participation)	From ownership (capital)
Orientation	Member service	Return on capital

However, this structure cannot operate without member participation. Participation is the mechanism that transforms cooperatives into living and productive systems. Without participation, cooperatives become merely formal organizations that fail to generate economic value. Member participation includes involvement in organizational governance—such as attending members' meetings, exercising voting rights, and conducting oversight—as well as involvement in economic activities, such as transacting through the cooperative. Systemically, participation functions as a mechanism for organizational control, economic value creation, and the distribution of benefits based on patronage (Birchall & Simmons, 2004; ICA, 2015; Österberg & Nilsson, 2009).

These forms of participation can be explained more concretely as follows:

Table 15. Forms of Participation in Cooperative Organizations

Form of Participation	Main Focus	Impact on Cooperatives
Decision-making	Democracy	Legitimacy & strategic direction
Oversight	Accountability	Prevention of moral hazard
Leadership	Cadre development	Organizational sustainability
Rule enforcement	Collective discipline	Institutional stability
Member education	Capacity building	Quality of participation

The table shows that member participation is not limited to attendance at meetings, but includes various complementary roles in maintaining cooperative sustainability. The higher the quality of member participation, the stronger the performance and governance of the cooperative.

Above these structures and participation mechanisms, cooperatives are supported by values and ethics as an invisible yet highly decisive foundation. Cooperatives are value-based organizations that uphold principles such as honesty, responsibility, openness, fairness, and solidarity (ICA, 1995; Novkovic, 2008). These values and ethics function as "social infrastructure" that strengthens trust among members, reduces transaction costs, and minimizes the need for complex supervisory mechanisms (Hansmann, 1996).

However, in practice, values and ethics often remain merely formal documents and are not consistently implemented. This condition is one of the main reasons why many cooperatives experience problems, such as low participation, internal conflict, and mismanagement. When values and ethics are not internalized, classic problems such as the free rider problem, agency problem, and elite capture tend to emerge (Cook, 1995; Cornforth et al., 1988; Chaddad & Iliopoulos, 2013). These problems cannot be resolved solely through formal regulations, because their roots lie in organizational behavior and culture.

Thus, cooperatives can only function optimally when owner–user relationships, member participation, and values and ethics operate simultaneously and reinforce one another. Without owner–user relationships, cooperatives shift into capital-based enterprises; without participation, cooperatives lose their economic activities; and without values and ethics, cooperatives lose trust and legitimacy. Therefore, the success of cooperatives is highly dependent on the extent to which members can fully perform their roles as owners, users, and guardians of organizational values.

3. The Importance of Maintaining Values and Ethics in Cooperatives

In many cooperatives, values and ethics are often written very well in bylaws, organizational guidelines, or even displayed on office walls. However, in daily practice, these values are not always consistently implemented. This condition is one of the main reasons why many cooperatives encounter problems and even end in failure. Cooperatives do not collapse because of a lack of rules, but because the values and ethics that should form the foundation of the organization are not internalized and practiced in reality.

In fact, within cooperatives, values and ethics are not merely moral norms or idealistic slogans. Values and ethics have real economic functions. Trust, honesty, and collective responsibility can reduce transaction costs by minimizing the need for strict supervision, complex contracts, and enforcement costs (Hansmann, 1996; Novkovic, 2008). In addition, values and ethics strengthen member compliance with organizational rules and facilitate cooperative economic activities. Thus, values and ethics function as "social infrastructure" that enables cooperatives to operate efficiently without relying entirely on formal mechanisms.

Values and ethics also play an important role in overcoming various classic problems within cooperatives. One of these is the free rider problem, a condition in which members enjoy cooperative benefits without contributing proportionally. For example, in consumer cooperatives, members continue to demand Net Surplus Distribution (NSD) but do not transact through the cooperative. As a result, business volume declines and economies of scale are not achieved. This problem cannot be resolved solely through formal regulations, but requires the internalization of values such as responsibility and solidarity, as well as strengthening member economic participation based on patronage (ICA, 1995; Birchall & Simmons, 2004).

Another issue is the agency problem, which arises when cooperative managers or administrators do not fully act in the interests of members. This may occur, for example, when investment decisions are made without transparency or member involvement. In such situations, weak member participation and oversight create opportunities for misconduct. Therefore, in addition to formal mechanisms such as audits, there is a need to strengthen values of openness, accountability, and active member participation as effective forms of social control (Österberg & Nilsson, 2009; Hansmann, 1996).

There is also the risk of elite capture, where a small group dominates the cooperative and exploits it for personal interests. For example, in savings and loan cooperatives, credit access may be more easily granted to groups close to the management. Such conditions undermine the principle of fairness and reduce member trust. To overcome this, it is necessary to strengthen values of democracy, transparency, and integrity, as well as to ensure a more balanced distribution of power within the organization (Cornforth et al., 1988; Cook, 1995; Chaddad & Iliopoulos, 2013).

These various problems demonstrate that formal regulations alone are insufficient to maintain cooperative sustainability. The roots of these problems often lie in member behavior, the quality of participation, and the dynamics of power relations within the organization. Therefore, the internalization of cooperative values and ethics becomes extremely important as an informal control mechanism that operates through collective norms and organizational culture (Cornforth et al., 1988; Cook, 1995).

Thus, maintaining values and ethics in cooperatives is a necessity, not merely an option. Values such as honesty, responsibility, fairness, solidarity, and openness must be practiced daily by all members, administrators, and management. A strong cooperative is not only one that has good systems and regulations, but one that is able to maintain consistency between written values and practiced values.

If values and ethics remain only on paper, cooperatives will become fragile and vulnerable to conflict and misconduct. Conversely, if values and ethics are truly internalized and practiced, cooperatives can become efficient, fair, and sustainable economic institutions.

4. Members' Right to Speak and Voting Rights

As a continuation of the discussion on owner–user relationships, participation, and cooperative values and ethics, the right to speak and voting rights are concrete manifestations of member sovereignty in cooperative governance. The principle of one member, one vote affirms that control rights are attached to membership status, not to the amount of capital owned. Thus, cooperatives position members as the primary subjects of decision-making, rather than merely investors.

Voting rights function to determine formal decisions, such as electing board members, approving accountability reports, or endorsing strategic policies. Meanwhile, the right to speak provides members with space to express opinions, criticism, proposals, and aspirations before decisions are made. The two complement each other: the right to speak strengthens the quality of deliberative processes, while voting rights provide legitimacy to decision outcomes.

Table 16. Differences Between the Right to Speak and Voting Rights in Cooperatives

Aspect	Right to Speak (Voice Rights)	Voting Rights
Definition	The right to express opinions, criticism, and proposals	The right to determine formal decisions
Main Function	Enriching the deliberative process	Establishing decision outcomes
Form in Practice	Asking questions, giving suggestions, expressing aspirations	Electing board members, approving policies
Democratic Focus	Quality of participatory process	Legitimacy of decision outcomes
Governance Impact	Transparency and accountability	Certainty of decisions and organizational direction

The quality of cooperative democracy is not determined solely by the availability of voting rights, but also by how those rights are exercised. Healthy practices are characterized by members who vote consciously, independently, and based on adequate information, as well as actively use discussion forums to supervise and direct the cooperative. Conversely, democracy weakens when voting becomes merely a formality, is manipulated by elites, or is conducted without substantive understanding. Under such conditions, cooperatives become vulnerable to elite capture, weak accountability, and declining member trust.

Therefore, strengthening members' voice rights and voting rights must be accompanied by member education, information transparency, and a culture of deliberation. In this way, cooperative democracy does not stop at voting procedures alone, but becomes a mechanism of collective control that ensures the cooperative remains aligned with the interests of its members.

5. The Use of Members' Voting Rights in Cooperatives

Voting rights are one of the fundamental rights of members in a cooperative and reflect the principle of economic democracy. Unlike capital-based business enterprises, where voting power is determined by the size of share ownership, cooperatives place members at the center of decision-making through the principles of equality and participation. Voting rights are not merely formal instruments in members' meetings, but also the main mechanism to ensure that cooperatives operate in accordance with the collective interests of their members (ICA, 1995; Birchall, 2011).

In the context of Indonesian regulation, the use of voting rights is governed by the Regulation of the Minister of Cooperatives and SMEs No. 19/Per/M.KUKM/IX/2015 concerning the Organization of Cooperative Members' Meetings. The Members' Meeting is the highest authority in a cooperative; therefore, every strategic decision must pass through this mechanism. For decisions to be valid, the meeting must meet a quorum requirement, namely the minimum number of members present as a condition for the legality of the meeting. Without a quorum, the decisions made have no legal force.

Decision-making in Members' Meetings fundamentally prioritizes the principle of deliberation and consensus, namely a collective discussion process aimed at reaching agreement without voting. However, if consensus cannot be achieved, decisions may be made through voting, based on the majority of votes. This mechanism demonstrates that democracy in cooperatives is not merely procedural, but also emphasizes deliberative values and togetherness in decision-making.

The voting rights of members in cooperatives are regulated differently depending on the type of cooperative. In primary cooperatives, each member has one person, one vote, regardless of the amount of capital owned. This affirms the principle of equality in cooperatives (Hansmann, 1996). Meanwhile, in secondary cooperatives, voting rights are regulated proportionally, usually based on the number of members from the primary cooperatives that constitute its membership. This model is used to maintain fair representation among member cooperatives within a more complex structure (Chaddad & Cook, 2004).

In practice, members' voting rights may be exercised through various forms of Members' Meetings, including:

a. Direct Members' Meetings, where members attend and vote directly.
b. Group Members' Meetings, where members are divided into groups, and group decisions are represented in higher-level meetings.
c. Written Members' Meetings, where decisions are made through written media without physical meetings.
d. Electronic Members' Meetings, which utilize digital technology to expand member participation.

These various forms demonstrate that democratic mechanisms in cooperatives are adaptive to geographical conditions, the number of members, and technological developments.

Operationally, there are several models for calculating and exercising voting rights in cooperatives. First, the direct model (one member, one vote), where each member casts one vote directly at the members' meeting. This is the simplest and most commonly used model in primary cooperatives. Second, the representative voting model, which is usually applied in cooperatives with large memberships. In this model, members express their aspirations through group meetings, after which the group voting results are compiled and represented by delegates in the central members' meeting. This model increases efficiency without eliminating the principle of participation (Birchall & Simmons, 2004).

Third, the aggregation model of group voting results, where decisions are made based on the accumulation of votes from various member groups. In this model, each group has a certain voting weight depending on the number of members represented. Fourth, in modern institutional developments, there is the multi-stakeholder cooperative model, in which members consist of various stakeholder groups (for example producers, consumers, workers, and social investors). In this model, voting rights may be regulated based on member classes (member class voting) or through a combination of equality and proportionality principles, in order to maintain a balance of interests among groups (Novkovic, 2008; Chaddad & Iliopoulos, 2013).

The regulation of voting rights in cooperatives is fundamentally not only related to the technical aspects of voting procedures, but also reflects the governance design of the cooperative. Voting rights serve as an instrument to control the organization, maintain management accountability, and ensure that decisions truly reflect the interests of members. Therefore, the quality of cooperative democracy is largely determined by the extent to which members exercise their voting rights actively, consciously, and responsibly (Österberg & Nilsson, 2009).

Thus, voting rights in cooperatives are not merely formal rights, but constitute the primary mechanism that determines the direction and sustainability of the organization. A healthy cooperative is one whose members actively exercise their voting rights, participate in decision-making, and uphold the integrity of democratic processes. Conversely, if voting rights are not exercised or are manipulated, cooperatives risk experiencing governance distortions and drifting away from their foundational principles as member-based economic organizations.

6. Models of Voting Rights in Multi-Stakeholder Cooperatives

In modern institutional development, cooperatives may bring together more than one stakeholder group, such as producers, workers, consumers, and social partners. This form is known as a multi-stakeholder cooperative. Because membership is heterogeneous, the regulation of voice rights and voting rights becomes more complex compared to homogeneous cooperatives. The challenge is how to maintain member democracy while ensuring that no single group dominates the others.

If the principle of one member, one vote is applied mechanically without considering differences among member classes, the group with the largest membership may dominate decisions. Therefore, multi-stakeholder cooperatives generally develop more balanced governance designs, such as voting allocations by member class, representative systems, weighted voting, or dual majority mechanisms. These models aim to preserve fairness in representation while encouraging inclusive and stable decision-making.

Table 17. Examples of Voting Rights Models in Multi-Stakeholder Cooperatives

Model	How It Works	Advantages	Risks
One Member One Vote per Class	Each member has one vote within their class	Democratic within each group	Large classes may dominate
Weighted Voting by Class	Each class receives a certain percentage of votes	Maintains balance	Requires fair design
Class Representation	Members elect representatives to the board	Efficient and representative	Risk of elite capture
Dual Majority	Must pass both total majority and class majority	Strong inter-group protection	Slower process
Hybrid	Combination of several models	Flexible	More complex rules

In practice, each member class usually elects its own representatives democratically. Afterward, strategic decisions at the cooperative level are made through a joint forum with agreed seat compositions and voting weights. Under this system, the largest membership group does not automatically control the organization, because balance among interests is maintained through institutional rules.

Table 18. Example of a Multi-Class Representative Council Simulation

Member Class	Number of Members	Proportion	Board Seats	Voting Weight
Producers	120	48%	2	30%
Workers	40	16%	2	25%
Consumers	80	32%	2	30%
Partners/Community	10	4%	1	15%
Total	250	100%	7	100%

The table above shows that the number of members does not automatically determine control. Although producers are the largest group (48%), their voting weight is limited to 30%. In addition, board seats are distributed relatively evenly among the classes. Thus, no single group dominates the decision-making process. This design maintains balance among interests and strengthens the quality of strategic decisions.

Table 19. Simulation of the Election of Class Representatives (Producer Class)

Class	Members Present	Votes in Favor	Votes Against	Result
Producers	100	65	35	Representative Elected

At the class level, the principle of one member, one vote still applies. Class representatives obtain direct legitimacy from members within their own class.

Table 20. Example of a Dual Majority Voting Model

Class	Voting Weight	Position on Candidate "Andi"
Producers	30%	Agree
Workers	25%	Agree
Consumers	30%	Disagree
Partners	15%	Agree

Calculation Result

The total votes in favor amount to 70% (30% + 25% + 15%) and are approved by 3 out of 4 member classes. Because the decision satisfies both the total majority and class majority requirements, the candidate is validly elected.

The success of multi-stakeholder cooperatives depends greatly on their ability to manage differences and transform them into collaboration. Therefore, in addition to fair voting designs, transparency, intergroup dialogue, and the internalization of cooperative values such as justice, solidarity, and shared responsibility are also required. In this way, multi-stakeholder cooperatives can become adaptive, democratic, and relevant institutional forms for modern economic needs.

7. Members' Economic Rights: Limited Return on Capital and Patronage-Based Residual Claim Rights

The economic rights of members in cooperatives differ from those in capital-based enterprises. While corporations emphasize returns on capital ownership, cooperatives place member participation as the primary source of economic benefit. Members are not only owners, but also active users who create value through transactions with the cooperative (Hansmann, 1996; Chaddad & Cook, 2004).

The first principle is limited return on capital, meaning that returns on invested capital are provided but are not dominant, so that the cooperative remains oriented toward member service rather than capital accumulation (ICA, 1995; Novkovic, 2008). In simple terms:

$$BJ_{Mi} = M_i \times r$$

Return on capital $(BJ_i)$is calculated from the member's capital contribution (M_i) multiplied by the rate of return (r), which is limited.

The second principle is patronage-based residual claim rights, namely the distribution of the cooperative's Net Surplus (SHU) based on members' participation in the cooperative's business activities. The greater a member's transactions with the cooperative, the greater the share of benefits received (Birchall & Simmons, 2004; Chaddad & Iliopoulos, 2013).

$NSD_i = (P_i / \Sigma P) \times SHU_{total}$

Where:

- NSD_i = Net Surplus Distribution received by member *i*
- P_i = Participation of member *i* in the cooperative's business activities
- ΣP = Total participation of all members
- SHU_{total} = Total Net Surplus (SHU) generated by the cooperative

The formula indicates that the Net Surplus Distribution (NSD) received by a member is proportional to the member's participation relative to the total participation of all members. Consequently, members who contribute more business volume through transactions with the cooperative receive a larger share of the distributed surplus.

The total economic rights of a member consist of two components: a limited return on capital and a patronage-based Net Surplus Distribution. This relationship can be expressed as:

$$HE_i = BJ_i + NSD_i$$

Where:

- HE_i = Total economic rights received by member *i*

- BJ_i = Return on capital received by member i
- NSD_i = Net Surplus Distribution received by member i

Accordingly, cooperatives apply the principle that capital is rewarded, but member participation remains the primary determinant of economic benefits. This system encourages members to actively conduct transactions and engage in cooperative activities because the benefits they receive are aligned with their level of participation and contribution to the cooperative (Österberg & Nilsson, 2009).

8. Conclusion

Membership is the foundation of the cooperative economic system and the principal characteristic that distinguishes cooperatives from capital-based business enterprises. Unlike conventional firms, cooperatives place members at the center of ownership, governance, and economic activity. Consequently, the long-term sustainability of a cooperative depends not primarily on capital accumulation, but on the ability of members to actively participate in and support the organization.

The Three-Pillar Cooperative Model presented in this chapter demonstrates that cooperative success is built upon three mutually reinforcing pillars: the owner–user relationship, member participation, and cooperative values and ethics. These pillars are inseparable. The owner–user relationship provides the institutional foundation, participation generates economic value and democratic control, and values and ethics create trust, legitimacy, and organizational cohesion. Weakness in any one of these pillars may undermine the effectiveness and sustainability of the cooperative.

This chapter has also shown that members' voice rights, voting rights, and economic rights are not merely individual entitlements but essential mechanisms for maintaining democratic governance and aligning the cooperative with the interests of its members. As cooperatives evolve and adopt more complex forms, including multi-stakeholder structures, the challenge is to preserve democratic participation while balancing diverse interests.

Ultimately, cooperative success depends on the extent to which members understand and fulfill their roles as owners, users, decision-makers, and guardians of cooperative values. A cooperative becomes resilient, fair, and sustainable when membership is active, participatory, and guided by shared values and collective responsibility.

Discussion Questions

1. Why is membership considered the defining characteristic of a cooperative, and how does it differ from membership in capital-based business enterprises ?
2. Explain the owner–user relationship in cooperatives. How does this relationship influence governance, economic incentives, and benefit distribution?
3. According to the Three-Pillar Cooperative Model, what are the three pillars of a cooperative, and why are they interdependent?
4. How does member participation contribute to the creation of economic value and democratic control within a cooperative?
5. Why are cooperative values and ethics considered a form of “social infrastructure”? How do they help reduce problems such as free riding, agency problems, and elite capture?
6. Distinguish between voice rights and voting rights. Why are both necessary for effective cooperative governance?
7. What are the advantages and limitations of the principle of “one member, one vote” in cooperative organizations?
8. Why do multi-stakeholder cooperatives require more complex voting arrangements than traditional cooperatives? Discuss at least two governance models that can be used.
9. Explain the difference between limited return on capital and Net Surplus Distribution (NSD) based on patronage. Why is this distinction important for preserving cooperative identity?
10. In your view, which is more critical to cooperative success: member participation, cooperative values and ethics, or democratic governance? Justify your answer with examples.

CHAPTER VI

MEMBER VALUE IN COOPERATIVES

1. Introduction

Cooperatives are established with the primary objective of improving the welfare of their members. However, the way cooperatives create and distribute welfare has characteristics that differ from Capital-Based enterprises (CBEs). In CBEs, owners' welfare is generally associated with increasing investment value or firm value, whereas in cooperatives, members' welfare is more closely related to the benefits members obtain through participation and utilization of cooperative services.

This difference arises because cooperatives possess a unique identity in which members simultaneously act as owners and users of cooperative services. Thus, members not only gain benefits from capital ownership, but also from economic activities conducted collectively through the cooperative. The more actively members utilize cooperative services, the greater the benefits they may receive.

In practice, the benefits received by cooperative members are not limited to the distribution of Net Surplus Distribution (NSD), but also include direct economic benefits such as better prices, lower transaction costs, access to financing, market certainty, member education, and other social benefits. Therefore, measuring cooperative success cannot fully rely on the same approach used for CBEs.

The concept of member value emerges as an approach to explain and measure the benefits received by cooperative members more comprehensively. This concept positions members as the center of cooperative value creation, so that cooperative success is measured not merely by the organization's profit, but by the extent to which the cooperative creates economic, social, and institutional benefits for its members.

This chapter discusses the concept of member value in cooperatives, including its terminology and implications, the justification for its distinction from firm value, a simple formulation of member value, and illustrations of measuring member benefits in both the short and long term using the Present Value Member Value approach.

2. Terminology and Implications of Member Value

Member value should serve as the primary terminology in measuring cooperative success because this concept constitutes the fundamental distinction between cooperatives and other forms of business enterprises. In cooperatives, success is not measured solely by the size of profits or capital accumulation, but by the extent to which the cooperative is able to create benefits for its members.

The concept of member value reflects the economic, social, and cultural benefits obtained by members as a result of their participation in the cooperative. These benefits may take the form of financial gains, better services, fairer prices, access to goods and services, democratic participation, as well as the economic and social empowerment of members.

According to Kimberly A. Zeuli and Roger Cropp (2004), member value in cooperatives is created through efficient services, fair prices, democratic participation, and proportional distribution of surplus based on member participation. From the cooperative perspective, members act not only as owners but also as patrons and users of cooperative services, so the benefits members receive are directly related to the extent to which they utilize cooperative services.

Thus, the measurement of member value does not derive solely from Net Surplus Distribution (NSD), but also from:

1. fairer prices for goods and services;
2. access to business services and financing;
3. transaction cost efficiency;
4. proportional distribution of benefits;
5. member involvement in decision-making; and
6. improvements in members' socio-economic welfare.

Johnston Birchall (2003) emphasized that cooperatives function not only as economic units, but also as instruments of members' social and economic empowerment. Through cooperatives, members gain opportunities to participate in decision-making while simultaneously improving collective welfare. Therefore, member value is not only individual in nature, but also collective and communitarian.

The concept of member value positions service to members as the primary foundation of cooperatives. The orientation of cooperatives is not merely the achievement of profit, but the creation of shared benefits through mechanisms that are fair, democratic, and participatory. This makes cooperatives a business model oriented toward collective interests and member empowerment.

From the perspective of cooperative financial management, the concept of member value has important implications for cooperative strategy and performance measurement. Cooperative financial strategies must be designed to maintain business sustainability and economic efficiency without sacrificing the objective of serving members. Thus, cooperative performance assessment is insufficient if measured solely through Net Surplus (SHU), but must also include member value creation, member satisfaction, service quality, and the cooperative's contribution to community development.

As argued by Hans-H. Münkner (2001), cooperative financial strategies must align with the dual purpose of cooperatives: achieving economic efficiency while providing services to members. Therefore, the success of a cooperative is ultimately determined by its ability to create tangible and sustainable benefits for its members.

3. Justification of Member Value

The concept of member value is important as a measure of cooperative success because it reflects the benefits members receive from their participation in the cooperative. Unlike Capital-Based enterprises (CBEs), which primarily emphasize the enhancement of owners' investment value, cooperatives are oriented toward creating economic and social benefits for members through business services and member participation.

The main characteristic of cooperatives lies in the dual identity of members, namely members as owners and users of cooperative services. Therefore, members' welfare is determined not only by the amount of capital they own, but also by their involvement in utilizing cooperative services.

From the members' perspective, cooperative member value can be interpreted as the value derived from the effectiveness of member participation, especially as users and also as owners. The role of members as users becomes highly dominant in obtaining member value, whereas in Capital-Based enterprises, firm value is largely determined by the amount of capital invested. This constitutes the fundamental difference between cooperatives and Capital-Based Enterprises in creating welfare for their owners.

Conceptually, member value in cooperatives differs fundamentally from firm value in Capital-Based enterprises. In CBEs, the primary organizational goal is shareholder wealth maximization. Therefore, company success is generally measured through firm value, namely the economic value of the company reflected in profitability, dividends, return on investment (ROI), and stock market prices. The higher the firm value, the greater the welfare of capital owners.

Within this perspective, capital becomes the center of the organization. Capital owners possess control rights based on the size of their share ownership (one share, one vote), while the distribution of economic benefits is determined by capital contribution. Company owners do not necessarily become users of the company's products or services, so the relationship between ownership and use is separated.

In contrast, cooperatives position members as the center of the economic organization. Members are not only owners, but also users of cooperative services. Therefore, the primary objective of cooperatives is not to maximize investor profits, but to maximize members' economic benefits through cooperative services. In this context, cooperative success is more appropriately measured through member value, namely the overall economic, social, and institutional benefits received by members as a result of their participation in the cooperative.

Table 21. Comparison Between Cooperatives and CBEs

Aspect	Cooperatives	(CBEs)
Main orientation	Member benefits and welfare	Profit and capital value enhancement
Owners	Members	Investors/shareholders
Relationship between owners and users	Integrated	Separated
Benefit distribution	Based on member participation	Based on capital ownership
Form of benefits	Net Surplus Distribution (NSD), business services, better prices, and other economic benefits	Dividends and capital gains
Control rights	One member, one vote	One share, one vote
Participation	Based on membership and service utilization	Based on capital ownership

Source: Sugiyanto et al. (2024), adapted.

In practice, cooperative member value can be assessed from several forms of benefits:

1. members' Net Surplus Distribution (NSD) based on capital contribution as owners, with limited capital remuneration according to cooperative principles;
2. members' Net Surplus Distribution (NSD) based on the amount of services utilized as users (patronage refund), in accordance with cooperative principles emphasizing member participation;
3. direct economic benefits obtained by members when utilizing cooperative services, such as better prices, discounts, lower costs, lower interest rates, and various other business advantages; and
4. social benefits in the form of member education and training, social funds, and cooperative contributions to regional and community development.

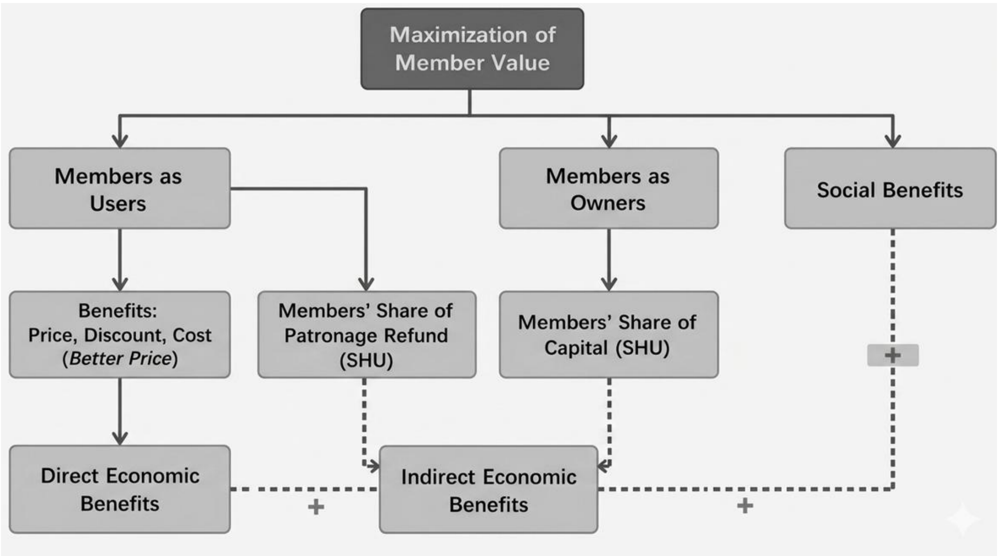

Figure 1. Member Value in Cooperatives is Obtained by Members as Both Users and Owners
Source: Sugiyanto et al. (2024), modified.

The member value described in the first and second points is obtained when the cooperative generates Net Surplus (SHU); therefore, these benefits are indirect economic benefits. Meanwhile, the benefits in the third point are obtained directly by members when utilizing cooperative services and are therefore direct economic benefits. The social benefits in the fourth point generally originate from Net Surplus (SHU) allocations designated for education funds, social programs, and regional development.

Thus, cooperative success is not determined solely by the amount of Net Surplus (SHU) generated, but also by the extent to which the cooperative is able to create direct economic benefits, social benefits, and relevant services for its members. The more actively members utilize cooperative services, the greater the member value they may obtain.

These differences confirm that cooperatives are not merely another variation of a business enterprise, but rather an institutional design fundamentally different from Capital-Based enterprises. If CBEs place capital at the center of the organization, cooperatives place members at the center of economic activities. Therefore, the measurement of cooperative success cannot be entirely equated with the measurement of success in capital-based companies.

4. Formulation and Present Value of Member Value

The concept of member value in cooperatives needs to be formulated more systematically so that the success of cooperatives in improving members' welfare can be measured in accordance with the identity and characteristics of cooperatives. Unlike Capital-Based Enterprises, which emphasize the increase in capital value (firm value), cooperatives place member benefits as the primary measure of organizational success.

Based on Table 21 and Figure 1, cooperative member value is essentially an accumulation of economic benefits, business benefits, Net Surplus Distribution (NSD), and social benefits received by members through their participation as both owners and users of the cooperative. In simple terms, member value (Mv) can be formulated as follows:

Short-term member welfare:

$$Mv=Meb+Msd$$

Description:
M_v =Member Value
M_{eb} =Members' Economic Benefits (economic benefits received by members)
Msd = Member Surplus Distribution (Net Surplus Distribution received by members)

This formulation can be extended by incorporating the social benefits received by members (Member Social Benefit), resulting in:

$$M_v = M_{eb} + M_{sd} + M_{sb}$$

Where:
M_v= Member Value
M_{eb}= Members' Economic Benefits
M_{sd}= Member Surplus Distribution (Net Surplus Distribution received by members)
M_{sb}= Member Social Benefit

In the cooperative context, members' economic benefits (M_{eb}) may come from:

a. better prices;
b. discounts;
c. lower loan interest rates;
d. lower transaction costs; and
e. other economic advantages obtained when members utilize cooperative services.

Meanwhile, members' surplus distribution (M_{sd}) consists of:

a. Net Surplus Distribution (NSD) derived from members' capital participation as owners; and
b. Net Surplus Distribution (NSD) derived from business participation or patronage refund.

Member social benefits (M_{sb}) may include:

a. member education and training;
b. social funds; and
c. the cooperative's contribution to regional and community development.

Thus, conceptually, member value can be understood as:

M_v = (Direct Economic Benefits) + (Net Surplus Distribution (NSD)) + (Social Benefits)

From a time perspective, members' welfare can be distinguished into:

a. Short-term member value, namely benefits received by members within a single business period; and
b. Present Value of Member Value ($PV(M_v)$), namely the present value of all benefits received by members in the long term.

The long-term approach can be formulated as follows:

$$PV(M_v) = \sum_{t=1}^{n} \frac{(M_{eb} + M_{sd} + M_{sb})_t}{(1+i)^t}$$

Thus, the member value of the member in one year is:
Member Value (M_v) = Members' Economic Benefits + Member Surplus Distribution + Member Social Benefit
M_v = Rp1,200,000 + Rp1,000,000 + Rp200,000
M_v = Rp2,400,000

This calculation shows that the total benefit received by members is not limited to the Net Surplus Distribution (NSD) distributed by the cooperative, but also includes direct economic advantages obtained during transactions and social benefits provided by the cooperative. In other words, even though the Net Surplus Distribution (NSD) received by the member is Rp1,000,000, the actual economic and social benefit experienced by the member is significantly higher, reaching Rp2,400,000 in total value.

This illustration confirms that member value provides a more comprehensive measure of cooperative performance compared to profit-based indicators alone, because it captures the full spectrum of benefits received by members as both owners and users of the cooperative.

$$M_v = 1.200.000 + 1.000.000 + 200.000 = 2.400.000$$

This means that over one year, the member receives economic and social benefits amounting to Rp2,400,000 from their participation in the cooperative.

This illustration shows that the main benefits for cooperative members do not come solely from the distribution of Net Surplus Distribution (NSD), but also from the direct economic advantages obtained when using cooperative services. The more actively members utilize cooperative services, the greater the member value they can obtain.

From a long-term perspective, members' welfare in cooperatives can be analyzed using the Present Value Member Value (PV(M_v)) approach, which represents the present value of all economic and social benefits received by members over multiple periods. This approach is used to demonstrate that the benefits of being a cooperative member are not only experienced in the short term, but also generate cumulative and sustained benefits in the future.

Illustration example

As an illustration, assume a member receives a member value of Rp2,400,000 per year for five years, with a discount rate of 10% per year. The present value of member value can be calculated as follows:

$$PV(M_v) = \sum_{t=1}^{5} \frac{2.400.000}{(1+0{,}1)^t}$$

The calculation can be broken down as follows:

$$PV(M_v) = \frac{2.400.000}{1{,}1} + \frac{2.400.000}{1{,}1^2} + \frac{2.400.000}{1{,}1^3} + \frac{2.400.000}{1{,}1^4} + \frac{2.400.000}{1{,}1^5}$$

The calculation results show that the present value of member value received by the member over five years is approximately:

$$PV(M_v) \approx Rp\ 9.098.000$$

Interpretation of this approach is that members' participation in cooperatives does not only provide short-term economic benefits, but also generates accumulated economic and social benefits in the long run. Thus, member loyalty and participation in cooperatives can be understood as a form of economic investment that yields sustainable benefits for members.

This approach also shows that cooperatives do not only function as business organizations, but also as instruments for improving members' welfare in a collective and sustainable manner. Therefore, strengthening cooperatives is not sufficient only through increasing capital and business expansion, but also through the cooperative's ability to continuously create member value for its members.

5. Conclusion

This chapter demonstrates that member value is an important concept for understanding the objectives and performance measurement of cooperatives. In contrast to Capital-Based enterprises (CBEs), which focus on increasing firm value, cooperatives are oriented toward creating benefits for members as both owners and users of cooperative services.

The concept of member value emphasizes that cooperative success cannot be measured solely by the size of the cooperative's Net Surplus (SHU), asset growth, or other conventional financial indicators. Cooperative performance must be assessed based on the ability of the cooperative to generate direct economic benefits, provide a fair Net Surplus Distribution (NSD) to members, deliver efficient services, and create social and institutional benefits for members.

The discussion in this chapter also highlights that member participation is the primary driver of member value creation. The more actively members utilize cooperative services, the greater the benefits they receive. These benefits may take the form of direct economic advantages, Net Surplus Distribution (NSD) based on participation, and various social benefits generated through cooperative activities. Thus, the economic relationship between members and the cooperative becomes the principal foundation of cooperative sustainability.

Furthermore, the formulation of member value and the Present Value Member Value approach demonstrate that the benefits of cooperative membership should be understood as long-term economic and social benefits. Therefore, cooperatives function not only as business organizations but also as instruments for improving members' welfare collectively and sustainably over time.

Ultimately, strengthening cooperatives is not only about increasing capital and expanding business operations, but also about enhancing the cooperative's ability to consistently create member value. The greater the benefits received by members through direct economic advantages, Net Surplus Distribution (NSD), and social benefits, the stronger their participation and commitment will be. Consequently, the sustainability and competitiveness of the cooperative as a member-based economic organization will also be strengthened.

Discussion Questions

1. What is meant by member value in cooperatives?
2. Why is the measurement of cooperative success different from Capital-Based Enterprises (CBEs)?
3. How does the concept of dual identity influence the creation of member value?
4. Why is member participation an important factor in cooperatives?
5. What forms of direct economic benefits can cooperative members receive?

6. Why cannot Net Surplus (SHU) be the only indicator of cooperative success?
7. How is the Present Value Member Value approach used to assess members' long-term welfare?
8. What are the implications of the member value concept for cooperative governance and business strategy?

CHAPTER VII

COOPERATIVE CAPITAL

1. Introduction

Capitalization is a fundamental prerequisite for the sustainability of cooperatives as both business enterprises and member-based economic institutions. Capital enables cooperatives to perform their economic functions, provide services to members, expand business scale, enhance competitiveness, and ensure operational continuity. However, unlike capital-based enterprises, capital in cooperatives is not the primary objective of the organization, but rather an instrument to achieve member welfare and strengthen collective economic solidarity (Birchall, 2011; Novkovic & Sena, 2007).

At the global level, cooperatives face structural pressures arising from market integration, business competition, and the need for large-scale financing access. This condition gives rise to the classic *cooperative capital conundrum*, where capital expansion requirements often conflict with democratic control principles and limitations on capital remuneration (Chaddad & Cook, 2004). This challenge is not only financial in nature but also relates to the identity of cooperatives as organizations that place people above capital.

International literature shows that cooperatives respond to these challenges through various capital innovations, such as strengthening internal capital, establishing indivisible reserves, developing non-voting capital instruments, and forming hybrid business enterprises to expand financing access (Roelants et al., 2015). These innovations affirm that capital development must remain aligned with member control as the core of cooperative governance.

In the Indonesian context, cooperative capitalization is strategically important because limited member capital capacity remains a major constraint on business growth. On the other hand, cooperatives are expected to play a significant role in inclusive and equitable economic development. Therefore, a comprehensive understanding of the concept, structure, sources, challenges, and innovations of cooperative capital—both nationally and globally—is essential for developing healthy, modern, and sustainable cooperatives.

2. Conceptual Framework of Cooperative Capitalization

The third cooperative principle, *member economic participation*, states that members contribute equitably to the capital of their cooperative and control it democratically. The one-member-one-vote principle separates capital contribution from control rights, meaning cooperative success is measured by service effectiveness to members, not by the size of capital accumulated (Birchall, 2011).

Cooperatives apply the principle of limited capital remuneration, where capital may receive returns but is not treated as investment risk compensation as in capital-based enterprises. This limitation preserves the cooperative's orientation toward member service and reinforces capital as an instrument of economic solidarity. Through collective capital, cooperatives can share risks, build business resilience, and create long-term benefits for members and communities (Birchall, 2011; Novkovic, 2008).

In this framework, capital is understood as a means rather than an end, functioning to support cooperative economic activities for the sustainable benefit of members. This perspective is rooted in the identity of cooperatives as an *association of persons*, not an *association of capital*, meaning capital is treated as a collective instrument under democratic control rather than a source of power or speculation.

Cooperative capital is closely tied to membership and reflects participatory commitment in collective enterprise, creating capital stability even though it limits accumulation flexibility compared to capital-based enterprises. Part of the capital becomes indivisible collective property, while surplus is used for cooperative development and improved member services. This approach is known as member-based capital, meaning capital originates from, is owned by, and is used for members' interests, and is not freely tradable because it is embedded in socio-economic member relations (Novkovic, 2008; Chaddad & Iliopoulos, 2013).

The most fundamental characteristic of cooperative capitalization is the subordination of capital to people, where capital is subject to socio-economic objectives and its returns are normatively limited. This limitation prevents cooperatives from shifting toward pure profit orientation and ensures that capital serves member welfare (Roelants et al., 2015). In addition, there is no direct relationship between capital and power, as voting rights and decision-making authority are determined by membership status rather than capital contribution (ICA, 2015).

Cooperative Capital Theory views capital as a socio-economic construct embedded in membership relations, consisting of three main elements: user-owned capital, collective ownership, and indivisible reserves (Novkovic, 2008). Capital is owned by users, partially managed collectively, and indivisible reserves function to ensure sustainability and protect cooperative assets across generations (Roelants et al., 2015). Unlike corporate capital structure theory, which focuses on maximizing shareholder value, cooperatives adopt a cooperative capital logic that prioritizes democratic control, stability, and institutional sustainability (Modigliani & Miller, 1958; Novkovic, 2008).

In this context, the tension between expansion needs and capital limitations (capital conundrum) is addressed through institutional solutions, particularly strengthening indivisible reserves and protecting member control to prevent demutualization risks (Chaddad & Cook, 2004; Birchall, 2011).

Cooperative capital structures are evolving toward hybrid models combining member capital, retained earnings, and external financing while preserving democratic control. Long-term capital strengthening is primarily achieved through indivisible reserves that form institutional capital—permanent capital embedded within the cooperative that cannot be individually claimed. Institutional capital serves as a risk buffer and provides stability, solvency, and autonomy. To address internal capital constraints, cooperatives also utilize non-voting external financing, including government support and social impact investors, carefully regulated to avoid undermining democratic principles.

In the modern economic era, cooperatives face expansion and global competition pressures. This leads to a more flexible interpretation of capital principles, including the development of new financing instruments. However, such flexibility remains bounded by the principle that capital must not become a source of power or weaken member democratic control.

3. Cooperative Capitalization in Several Countries

International experience shows that cooperatives can develop diverse forms of capitalization without losing member democratic control. Although instruments vary, the core principle remains the same: capital functions as a tool to strengthen services, business expansion, and sustainability—not as a source of power domination.

Globally, cooperative capital includes not only retained earnings or external financing, but also share capital as members' basic contributed capital. According to Birchall (2011), the most common form is member share capital, which represents members' participation. Unlike corporate shares, cooperative share capital does not grant proportional control, as voting rights follow the one-member-one-vote principle.

In Italy, cooperatives are well known for *indivisible reserves*, where part of surplus is retained as permanent capital that cannot be distributed to members (Birchall, 2011; Roelants et al., 2015). This strengthens long-term solvency and intergenerational sustainability.

In Spain, capital strengthening often occurs through cooperative group or holding structures, where cooperatives combine resources to finance large-scale investments and share risks (Chaddad & Cook, 2004; Roelants et al., 2015).

In Canada, cooperatives use investment shares, allowing members to contribute additional capital without gaining extra voting rights (Birchall, 2011; Novkovic, 2008). In South Korea, non-voting capital participation is used, allowing members or partner institutions to invest without gaining governance control (ICA, 2015; Birchall, 2011).

In the Netherlands, cooperative bonds are used as medium- and long-term debt instruments to finance infrastructure and expansion. As debt instruments, they do not confer ownership or voting rights, preserving member control (Roelants et al., 2015; Chaddad & Iliopoulos, 2013).

Table 22. Cooperative Capitalization Practices in Other Countries

Country	Capital Form	Key Practice
General / International	Member Share Capital	Member-contributed basic capital
Italy	Indivisible Reserves	Surplus retained as permanent collective capital
Spain	Cooperative Groups/Holding	Capital strengthened through cooperative integration
Canada	Investment Shares	Additional capital without voting rights
South Korea	Non-Voting Capital	External/member capital without control rights
Netherlands	Cooperative Bonds	Financing through long-term debt instruments

Key lessons for Indonesia include strengthening member share capital, building retained earnings as long-term capital, allowing non-voting capital participation, encouraging inter-cooperative collaboration, utilizing cooperative bonds for expansion, and positioning member participation as the foundation of sustainable capital accumulation.

4. Sources of Cooperative Capital in Indonesia

The sources of cooperative capital in Indonesia are regulated under Article 41 of Law No. 25 of 1992 on Cooperatives. The law classifies cooperative capital into three main categories: (a) Own Capital (Equity Capital), (b) Borrowed Capital, and (c) Cooperative Equity Participation Capital.

a. Equity Capital

Own capital represents members' equity in the cooperative and serves as the primary foundation of internal financing. As stated in the elucidation of Article 41, own capital is risk-bearing capital (equity capital), meaning that members bear business risks within the limits of their capital contributions.

1) Principal Savings

Principal savings are mandatory initial contributions paid by members when joining as proof of ownership in the cooperative. These savings are part of equity, paid once, non-transferable, and can only be withdrawn when a member exits in accordance with the bylaws. The amount is determined by the cooperative and is generally relatively small, with limited returns. Principal savings are not investment instruments and bear loss risk according to the principle of member responsibility.

2) Mandatory Savings

Mandatory savings are members' periodic capital contributions in accordance with cooperative regulations and form part of equity. These savings reflect members' participation as owners, cannot be transferred, and may be withdrawn when membership ends according to cooperative rules. Returns are limited, and these funds also bear cooperative risk. Mass withdrawal of mandatory savings may create liquidity pressure on cooperative capital.

3) Reserve Fund

The reserve fund is part of the surplus or net income that is not distributed to members and is determined through the Members' Meeting. This fund serves as institutional capital to strengthen the cooperative's resilience, cover potential losses, maintain operational stability, and act as the first buffer before affecting members' savings.

4) **Grants**

Grants are additional own capital provided voluntarily by external parties to the cooperative, either in cash, movable or immovable assets, or intangible assets such as intellectual property rights. Grants usually come from individuals, foundations, CSR programs, or the government, and are recorded as cooperative equity. Generally, grants cannot be distributed to members and remain subject to depreciation, damage, or loss in accordance with cooperative accounting principles.

b. Borrowed Capital

Borrowed capital or loan capital is a source of cooperative financing obtained from internal or external parties outside own capital. Unlike equity, loan capital does not represent ownership and creates repayment obligations in accordance with agreements. Its function is to strengthen financing capacity and liquidity while maintaining financial risk management balance.

Loan capital is cost-bearing capital, meaning the cooperative must pay interest (in conventional schemes) or profit-sharing/margin (in Islamic schemes). In addition, loans have a fixed term (tenor), requiring the cooperative to ensure cash flow capability to meet principal and return obligations on time.

Access to loan capital depends heavily on creditor trust. Therefore, cooperatives generally must meet financing eligibility requirements, including providing collateral as risk mitigation for lenders.

In practice, financial institutions such as Bank Rakyat Indonesia or Bank Mandiri apply the Five Cs of Credit:

1. Character (borrower's integrity and reputation)
2. Capacity (ability to repay)
3. Capital (capital condition)
4. Collateral (guarantee)
5. Condition of Economy (business and economic conditions)

Thus, loan capital has the characteristics of non-ownership capital, fixed or measurable cost, defined tenor, and eligibility requirements with collateral, so it must be managed carefully to avoid liquidity pressure and default risk.

1) Member Loans. Member loans are funds provided by members to the cooperative in the form of money or assets to support cooperative activities.
2) Loans from Other Cooperatives and/or Their Members. These are financing arrangements obtained through cooperation among cooperatives as part of inter-cooperative solidarity. This allows cooperatives to access liquidity from other cooperatives without changing ownership structure. Internationally, this is known as inter-cooperative lending or secondary cooperative financing (ICA, 2015; Birchall, 2011).
3) Loans from Banks. Cooperatives may access financing from conventional or Islamic banks for investment, working capital, and business development. Financing generally includes credit limits, tenor, interest or profit-sharing ratios, eligibility requirements, and collateral.
4) Loans from Other Financial Institutions. These are alternative external financing sources outside banking institutions, used to strengthen liquidity, support investment, or expand business capacity. These schemes are generally more flexible and diverse.
5) Loans through Bonds and Other Debt Instruments. Cooperatives may raise funds through bonds or other debt securities in accordance with capital market regulations. These instruments represent cooperative debt obligations to investors that must be repaid at maturity.
6) Other Legal Sources. Cooperatives may also obtain financing from other legal arrangements such as asset leasing, revenue-sharing land use systems, or usufruct rights agreements, depending on business needs.

c. Cooperative Equity Participation Capital

Cooperative Equity Participation Capital refers to funds or capital assets, valued in monetary terms, that are invested by investors to supplement and strengthen the capital structure of a cooperative in order to expand and improve its business activities (Government Regulation No. 33 of 1998 on Equity Participation in Cooperatives). Equity participation may be provided in the form of cash, movable assets, immovable assets, or other assets that can be valued in monetary terms.

Unlike members' equity, participation capital does not confer membership status, voting rights, or governance authority within the cooperative. Consequently, investors do not participate in members' meetings and cannot influence cooperative policies or decision-making processes. This arrangement allows cooperatives to access additional long-term capital without compromising the principle of democratic member control. Therefore, while participation capital strengthens the cooperative's financial capacity and supports business expansion, governance remains firmly in the hands of members under the principle of "one member, one vote."

5. Internal and External Capital

This involves combining internal capital, derived from members' economic participation and the creation of reserves through retained business surpluses, with external capital that is selectively sourced from outside the membership base.

Table 23. Differences Between Internal and External Capital from a Cooperative Perspective

Comparative Aspect	Internal Cooperative Capital	External Cooperative Capital
Source	Members and cooperative business surpluses	Parties outside the cooperative (banks, federations, government, social investors)
Main Forms	Member capital, collective reserves (*indivisible reserves*), grants	Loans, cooperative bonds, debt securities, public funds, non-voting financing
Ownership Nature	Embedded in membership and the cooperative institution	Does not constitute ownership in the cooperative
Control Rights	Democratically controlled by members	Not accompanied by voting rights or organizational control
Strategic Function	Capital foundation, long-term stability, risk buffer	Complementary source for business expansion and large-scale investment
Governance Implications	Strengthens cooperative identity and democratic control	Must be carefully managed to avoid shifting the cooperative's orientation

Unlike Capital-Based enterprises (CBEs), which prioritize capital flexibility and expansion, cooperatives structure their capital more cautiously because every financing decision has direct implications for institutional identity, democratic control, and power relations within the organization. Therefore, internal capital is positioned as the primary foundation that safeguards the stability and identity of the cooperative, while external capital serves as a complementary resource to support business growth without undermining democratic principles and the member welfare orientation, as summarized in the table above.

Overall, global experience indicates that the success of cooperative financing is highly dependent on maintaining a balanced capital portfolio, combining internal capital—based on members' economic participation and the accumulation of reserves from retained surpluses—with external capital obtained from outside the membership. In contrast to CBEs (Capital-Based Enterprises), which place capital flexibility and expansion at the center of their strategy, cooperatives design their capital structures more cautiously because financing decisions directly affect institutional identity and power relationships within the organization. Consequently, internal capital remains the cornerstone of cooperative sustainability and democratic governance, while external capital functions as a supporting instrument for growth and investment without compromising cooperative principles and member-oriented objectives.

6. Voting Capital and Non-Voting Capital

Voting capital and non-voting capital are two important elements in the capital structure of cooperatives that have evolved in global practice. The literature shows that cooperatives consistently separate capital contributions from control rights as a key mechanism for preserving the democratic identity of the organization. In cooperative systems, voting rights are not determined by the amount of capital contributed but are attached to membership status through the principle of one member, one vote. Therefore, voting capital is generally limited to prevent domination by large capital contributors, while non-voting capital is developed as an alternative financing instrument that enables business expansion without diminishing members' control.

Numerous studies emphasize that membership-based voting rights constitute the core of cooperative governance and are essential for maintaining member-service orientation and organizational legitimacy (Novkovic, 2008; Birchall, 2011). In this context, non-voting capital is viewed as a financing innovation compatible with cooperative principles, provided that it does not confer authority over strategic decision-making. Common forms discussed in the literature include non-voting shares, non-voting preferred shares, member investment shares, community shares, and cooperative bonds. Empirical evidence indicates that these instruments effectively increase investment capacity and access to finance, particularly when they are designed with limited returns, cannot be converted into voting shares, and do not provide veto rights or board control (Chaddad & Cook, 2004; Bager, 2014).

Table 24. Voting Rights and Non-Voting Rights in Cooperative Capitalization

Comparative Aspect	**Voting Capital**	**Non-Voting Capital**
Rights Holder	Cooperative members	Members or external parties (non-members)
Basis of Voting Rights	Membership (*one member, one vote*)	No voting rights
Relationship Between Capital and Power	Not proportional to capital contribution	Completely separated from organizational power
Forms of Capital	Membership shares and mandatory savings	Non-voting preferred shares, cooperative bonds, community shares
Primary Function	Ensures democratic control and organizational legitimacy	Increases financing and investment capacity
Financial Return	Limited or none	Limited and financial in nature
Risk to Cooperative Identity	Very low	Moderate if not tightly regulated
Governance Role	Determines strategic policies	Not involved in decision-making
Compatibility with Cooperative Principles	Very high	Conditional (must not include control rights)

However, the literature also identifies several risks that require careful management, including mission drift arising from pressure to maximize financial returns and the potential for de facto control through indirect mechanisms such as financial agreements, debt covenants, or liquidity dependence on specific investors. Birchall (2013) argues that cooperative failures often result not from formal changes in voting rights but from excessive financial dependence that weakens organizational autonomy. Therefore, the success of cooperative capitalization strategies depends on maintaining a clear separation between capital and voting rights, whereby voting rights remain exclusively attached to members, while non-voting capital is used selectively as an additional source of financing.

To provide a more systematic overview of the differences between these two forms of capital, Table 24 presents a comparison of voting and non-voting capital within cooperative financing structures.

7. The Equity–Liability Puzzle

In the international literature, cooperative capital structures often face the equity–liability puzzle, a condition in which member capital economically functions as equity but possesses characteristics similar to liabilities because it may be redeemed when members withdraw (IAS 32; IFRIC 2). Unlike corporate capital, which is generally permanent, cooperative capital occupies a hybrid position: on the one hand, it bears business risks like equity, but on the other hand, it may create repayment obligations.

This situation creates a fundamental paradox for cooperatives. Cooperatives require long-term capital to maintain business stability, yet the principle of open membership means that part of their capital is not entirely permanent.

Such conditions may generate a mismatch between assets and liquidity needs because member funds are often invested in non-current assets such as buildings, vehicles, machinery, or inventories. When many members withdraw their capital simultaneously, cooperatives may experience cash-flow pressures. Potential consequences include:

1. Forced sale of assets at discounted prices (*fire sales*);
2. Obtaining new loans at additional costs;
3. Delays in payments to members;
4. Reduced confidence among members and business partners.

The risk becomes even greater in the event of a run, where many members withdraw their capital simultaneously. Thus, the equity–liability puzzle demonstrates that member capital cannot be viewed solely as equity but must also be managed from the perspective of liquidity and financial resilience.

Illustrative Example

Suppose a cooperative has n = 100 members, each contributing M = IDR 10,000,000, resulting in total equity (E) of IDR 1 billion.

Most of these funds are invested in non-current assets (A) worth IDR 900,000,000, leaving only IDR 100,000,000 in available cash (C).

If k = 20 members withdraw, the repayment obligation (L) becomes:

L = IDR 200,000,000

Since L > C, a liquidity shortfall (D) of IDR 100,000,000 emerges.

Although the cooperative appears financially strong because of its substantial equity, in practice part of that capital can become an immediate repayment obligation when members exit. This is the essence of the equity–liability puzzle.

8. Leapfrogging Cooperative Capitalization

From an economic perspective, leapfrogging in cooperative capitalization refers to a strategy of overcoming traditional capital constraints by establishing or owning non-cooperative enterprises, such as limited liability companies, while retaining cooperative control through majority ownership.

Through this model, cooperatives can access more flexible financing sources—including external investors, capital markets, and business sectors requiring specific legal forms—without altering the democratic principles governing the parent cooperative (Chaddad & Cook, 2004; ICA, 2015).

This approach is consistent with findings from the International Cooperative Alliance's Survey of Co-operative Capital Report, which highlights the importance of innovation in capital instruments and institutional structures so that cooperatives can grow in modern markets while preserving their cooperative identity. The report emphasizes that capital-access limitations can be addressed through hybrid models that separate member-control functions from the flexibility of capital mobilization (ICA, 2015).

From a risk-management perspective, this strategy may also provide a solution to the equity–liability puzzle. External capital is placed within corporate enterprises that possess more permanent capital characteristics, while the cooperative remains the controlling owner and guardian of democratic governance.

Thus, leapfrogging should not be viewed as a departure from cooperative identity but rather as a form of institutional adaptation aimed at strengthening competitiveness, business sustainability, and expansion capacity (Birchall, 2011).

One of the best-known examples is the Mondragon Corporation in Spain. This cooperative group has developed into a global business network with cooperatives at its ownership core while operating numerous non-cooperative subsidiaries and affiliated companies across different countries. This structure enables international expansion, broader access to financing, and greater business flexibility, while cooperatives remain the center of control and democratic governance for members.

By 2024, Mondragon employed more than 70,000 workers and generated revenues exceeding €11 billion.

Another example is Eroski, part of the Mondragon Group, which combines cooperative and non-cooperative business enterprisesto expand its modern retail network. In the industrial sector, Mondragon member cooperatives such as Fagor have established overseas subsidiaries to bring production closer to international markets, improve supply-chain efficiency, and expand access to investment (Bretos et al., 2025).

Similar practices are also emerging in Indonesia. Kospin Jasa Pekalongan established a Sharia insurance company incorporated as a limited liability company (PT), which subsequently raised capital through the Indonesian Stock Exchange. Meanwhile, KUD Mino Saroyo established a capital-based entity (CBE), namely a limited liability company (Perseroan Terbatas/PT), in which the majority share ownership remains under cooperative control.

This model reflects a strategy of financial leapfrogging, whereby cooperatives expand access to financing through market instruments and non-cooperative enterprises while preserving the fundamental principle of member democracy.

9. Conclusion

Cooperative capital is a key determinant of sustainability and reflects the identity of cooperatives. Unlike Capital-Based Enterprises (CBEs), cooperative capital is based on member participation and democratic control. Cooperatives face challenges such as limited internal capital, liquidity risks, and expansion needs. These are addressed through hybrid capital structures, non-voting instruments, and leapfrogging strategies.

Ultimately, capital management in cooperatives is not only a financial issue but also an institutional strategy to ensure democratic, resilient, and competitive cooperatives.

Discussion Questions

1. Why do cooperatives limit returns on capital, and what are the implications for investment attractiveness?

2. How do cooperatives balance the need for business expansion with the principle of member democracy?
3. What are the main risks of the equity–liability puzzle in cooperatives, and how can they be addressed?
4. When should cooperatives use loan capital rather than own capital?
5. What is the role of collective reserves (indivisible reserves) in maintaining cooperative sustainability?
6. Does the use of non-voting capital have the potential to shift the identity of cooperatives? Explain.
7. How can leapfrogging strategies improve cooperative competitiveness without removing member control?

CHAPTER VIII

COOPERATIVES AS COLLECTIVE EFFICIENCY ENTERPRISES

1. Introduction

In the literature on development economics and industrial organization, collective efficiency refers to a condition in which a group of economic actors achieves efficiency gains through joint action that cannot be attained individually (Schmitz, 1995). The concept recognizes that economic efficiency is generated not only through market competition but also through cooperation, coordination, and the organization of economic activities within a collective structure. Such efficiency gains may include lower transaction and operating costs, higher productivity, reduced risks, improved market access, and stronger bargaining positions.

Conventional economic theory generally assumes that competitive markets allocate resources efficiently through the interaction of supply and demand (Varian, 2014; Pindyck & Rubinfeld, 2018). However, these outcomes depend on assumptions that are often not fully satisfied in practice. Small-scale producers and consumers frequently encounter constraints related to limited scale, imperfect information, restricted market access, and weak bargaining power (Stiglitz, 1989; Akerlof, 1970). As a result, they may be unable to capture the full benefits of market participation, leading to outcomes that are less efficient and less equitable.

Under such conditions, collective economic organizations can function as institutional mechanisms for addressing these structural limitations. Cooperatives represent one of the most prominent forms of collective enterprise, enabling members to pool resources, coordinate activities, and integrate economic functions. Through these mechanisms, cooperatives help members achieve efficiencies that would be difficult to attain individually and are therefore often viewed as institutional responses to market failures affecting small-scale economic actors (Sexton & Iskow, 1988; Royer, 1999).

This chapter examines cooperatives as enterprises based on collective efficiency. The efficiency generated by cooperatives arises from the collective organization of economic activities rather than from individual market participation alone. To explain these mechanisms, the chapter focuses on five interrelated dimensions of collective efficiency: economies of scale, economies of scope, economies of coordination, market access, and bargaining power. Together, these dimensions provide an analytical framework for understanding how cooperatives create economic value while strengthening the economic position of their members within the broader market system (Birchall, 2013; International Labour Organization, 2017; Panzar & Willig, 1981; Williamson, 1985).

2. Economies of Scale in Cooperatives

Economies of scale refer to a condition in which average costs decline as the volume of production, procurement, distribution, or other economic activities increases (Varian, 2014; Pindyck & Rubinfeld, 2018). This occurs because fixed costs can be spread across a larger volume of output, while larger-scale operations often allow more efficient utilization of labor, capital, technology, and infrastructure.

In cooperative enterprises, economies of scale are achieved through the aggregation of members' economic activities. Individually, members may operate at a scale that is insufficient to obtain favorable prices, access advanced technology, or utilize infrastructure efficiently. By conducting transactions collectively through the cooperative, members can reach a larger operational scale and benefit from lower average costs.

For producer cooperatives, economies of scale commonly arise through collective procurement of inputs such as seeds, fertilizers, feed, equipment, and production materials. Bulk purchasing enables cooperatives to negotiate lower prices, reduce transaction costs, and improve supply reliability. Similarly, collective marketing allows members to consolidate output, reduce distribution costs, and access larger and more profitable markets that may be inaccessible to individual producers.

Consumer cooperatives benefit from economies of scale through centralized purchasing and distribution systems. By aggregating member demand, cooperatives can obtain products at lower wholesale prices and transfer these savings to members through lower retail prices or patronage refunds. Service cooperatives generate similar efficiencies by sharing facilities, administrative functions, and operational infrastructure, thereby reducing the average cost of service provision.

From an institutional perspective, economies of scale constitute one of the most fundamental sources of collective efficiency within cooperatives. By aggregating dispersed economic activities, cooperatives enable members to overcome scale-related disadvantages commonly faced by small economic actors and improve their competitiveness within the market.

To illustrate this mechanism, Figure 2 presents the Long-Run Average Cost (LRAC) curve. The downward-sloping portion of the curve demonstrates that average costs decline as the scale of activity expands, reflecting the distribution of fixed costs across a larger volume of output and the more efficient utilization of resources. In the cooperative context, the aggregation of members' activities enables the organization to move toward a more efficient scale of operation, thereby generating economic benefits that individual members would be unable to achieve on their own.

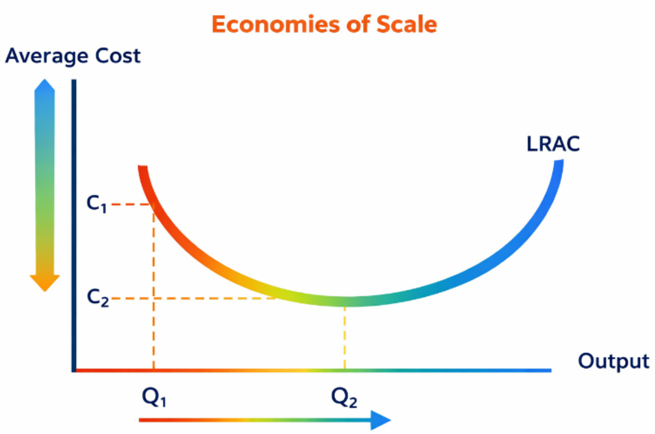

Figure 2. Economies of Scale

Illustration:

Individual members operate on a small scale with relatively high costs. By combining purchases and sales through a cooperative, transaction volumes increase, average costs decline, and members obtain better prices. This illustrates economies of scale through collective action.

3. Economies of Scope

Economies of scope occur when total costs are more efficient when multiple products or services are produced jointly rather than separately

(William Panzar & Robert Willig, 1981; David Besanko et al., 2013). In cooperatives, this concept relates to the ability of the organization to utilize shared resources—such as infrastructure, distribution networks, and institutional systems—to carry out various interconnected economic activities efficiently.

In practice, cooperatives do not only perform one economic function but can integrate various activities into one system, such as procurement, processing, distribution, and other services. This integration allows shared use of resources, so the additional cost of producing new products or services becomes relatively smaller than if each activity were conducted separately (John Birchall, 2013; International Labour Organization, 2017).

Illustration:

A cooperative uses the same facilities, workforce, and distribution network to produce multiple products or services. Sharing the same resources reduces costs and increases the total value created. This illustrates economies of scope through business diversification.

4. Economies of Coordination

Economies of coordination refer to efficiency gained through the arrangement and synchronization of economic activities among actors, reducing inefficiencies, imbalances, and uncertainty in the market (Oliver Williamson, 1985; Jeffrey Royer, 1999). In cooperatives, this function is realized through coordination of production, distribution, and information exchange among members within an organized system.

Coordination does not only occur within a single cooperative but can also extend across cooperatives through institutional collaboration. In this framework, cooperatives are not positioned as competing enterprises but as part of an interconnected economic network. Through coordination, cooperatives can reduce distribution costs, increase market certainty, and maintain price stability.

One major source of coordination efficiency is the reduction of transaction costs, which include costs of searching for information, negotiating, monitoring, and enforcing contracts (Oliver Williamson, 1985; Ronald Coase, 1937). In market mechanisms, economic relationships rely on contracts that are often incomplete, creating uncertainty and additional costs—especially for small actors.

Cooperatives reduce these costs by internalizing economic relationships within the membership system. Interactions among members are not fully dependent on market contracts but are governed by internal rules, shared norms, and organizational mechanisms. This reduces repeated negotiations, lowers monitoring costs, and limits opportunistic behavior. In addition, more open and coordinated information exchange improves economic decision-making certainty.

Thus, the efficiency generated is not only operational but also institutional. This reduction in transaction costs becomes one of the key advantages of cooperatives as collective efficiency enterprises.

Illustration:

Without coordination, members produce and market their products independently, leading to oversupply, shortages, and higher transaction costs. Through a cooperative, production, distribution, and market information are coordinated, improving efficiency, reducing costs, and stabilizing market outcomes.

5. Market Access

Market access refers to the ability of economic actors to enter, participate in, and benefit from markets. Small producers and consumers often face barriers such as limited market information, inadequate infrastructure, high transaction costs, restricted distribution channels, and weak bargaining positions. As a result, they may be unable to reach profitable markets or obtain fair prices for their products and services (Stiglitz, 1989; International Labour Organization, 2017).

Cooperatives improve market access by aggregating members' products, coordinating distribution, providing market information, and establishing collective marketing channels. Through these mechanisms, members gain access to markets that would otherwise be difficult or costly to enter individually.

Producer cooperatives often assist members in meeting quality standards, certification requirements, and contractual obligations demanded by larger buyers. Consumer cooperatives improve access to affordable goods and services through collective purchasing systems. Savings and credit cooperatives expand access to financial services for members who may be underserved by conventional financial institutions.

Illustration:

Individually, members have limited access to larger markets. Through a cooperative, their products are aggregated, enabling access to broader markets, lower marketing costs, and better market opportunities.

6. Bargaining Power

Bargaining power refers to the ability of economic actors to influence prices, contract terms, and other conditions of exchange in their favor. Individual small-scale producers and consumers often possess weak bargaining power because they transact in small volumes and have limited alternatives. Consequently, they may receive unfavorable prices and conditions in the market (Sexton & Iskow, 1988; Royer, 1999).

Cooperatives strengthen bargaining power by representing members collectively. Through aggregation and coordinated action, cooperatives increase transaction volume and create a stronger negotiating position when dealing with suppliers, buyers, financial institutions, and other market actors. Collective bargaining allows members to obtain lower input prices, higher selling prices, better contract conditions, improved access to credit, and more equitable market relationships. In addition, the cooperative acts as an institutional intermediary that reduces information asymmetry and protects members from exploitative market practices.

Illustration:

Individually, members have weak bargaining power. Through collective negotiation by the cooperative, they secure better prices and more favorable contract terms.

7. Efficiency Comparison: Cooperatives and Capital-Based Enterprises

To understand cooperatives as collective efficiency enterprises, it is important to compare them with capital-based enterprises (CBEs). While both operate as enterprises, they differ fundamentally in ownership structure, economic objectives, and efficiency mechanisms. In capital-based enterprises

, owners and users are separated. Firms aim to maximize shareholder profit, while relationships with users are governed by market mechanisms. Efficiency is achieved through cost control, economies of scale, and competition.

In contrast, cooperatives are built on a dual identity principle, where members act as both owners and users. This structure integrates members' economic interests into a single system. Efficiency is not only derived from cost reduction but also from aggregation, integration, and intensive coordination. This difference is summarized in the following table:

Table 25. Comparative Characteristics of Cooperatives and CBEs

Aspect	Cooperative (Collective Efficiency)	CBE
Structure & Identity	Members as both owners and users	Separation of owners and users
Economic Objective	Optimization of member benefits	Profit maximization
Source of Efficiency	Aggregation, integration, coordination	Market-based cost efficiency
Economic Coordination	Internal, membership-based	Market contracts and prices
Transaction Costs	Lower	Higher
Value Distribution	More evenly distributed	Concentrated on capital owners
Stability	More stable	More volatile

The table shows that efficiency in CBEs is market-based efficiency, while in cooperatives it is collective efficiency. Consequently, cooperatives cannot be evaluated solely using conventional corporate efficiency metrics.

Thus, cooperatives represent a distinct enterprise model with inclusive and sustainable efficiency characteristics through coordinated member-based economic organization.

8. Conclusion

This chapter demonstrates that cooperatives are enterprises founded on the principle of collective efficiency. Unlike Capital-Based Enterprises (CBEs), which primarily pursue efficiency through market competition and profit maximization, cooperatives generate efficiency through the collective organization of members' economic activities.

Five interrelated sources of collective efficiency were identified. Economies of scale reduce average costs through the aggregation of member activities. Economies of scope increase value creation through the shared utilization of resources and business diversification. Economies of coordination reduce transaction costs, uncertainty, and market imbalances through organized collective action. Market access enables members to participate in larger and more profitable markets, while bargaining power strengthens members' ability to obtain more favorable prices and contractual conditions.

The foundation of these efficiencies lies in the dual identity of cooperative members as both owners and users. This structure aligns economic incentives, promotes participation, and strengthens democratic governance. As a result, cooperatives create not only technical efficiency but also institutional efficiency that supports inclusion, stability, and long-term sustainability.

Therefore, cooperatives can be understood as collective efficiency enterprises that improve member welfare by combining economic coordination, market access, and collective bargaining within a democratically governed organization.

Discussion Questions

1. What is meant by collective efficiency, and how does it differ from market-based efficiency?
2. Why do small-scale economic actors often face disadvantages in competitive markets?
3. How do cooperatives generate economies of scale through collective action?
4. How do economies of scope contribute to value creation and business diversification in cooperatives?
5. Why is coordination considered an important source of efficiency in cooperative enterprises?
6. How do cooperatives reduce transaction costs compared to market-based transactions?
7. How do cooperatives improve market access for their members?
8. Why is bargaining power important for small producers and consumers, and how do cooperatives strengthen it?
9. What are the main differences between collective efficiency in cooperatives and efficiency in Capital-Based Enterprises (CBEs)?
10. In what ways does the dual identity of members as owners and users contribute to cooperative efficiency?

CHAPTER IX

COOPERATIVE EFFECTS

1. Introduction

Cooperatives are established to generate economic benefits directly for their members. Unlike capital-based enterprises, where business success is primarily measured by profitability and returns to investors, cooperatives seek to improve member welfare through collective action, mutual benefit, and democratic economic participation. Members therefore occupy a dual role as both owners and users of cooperative services, creating a distinctive organizational structure in which business activities are designed to serve member needs rather than maximize returns to external capital.

This dual identity creates an important implication for performance measurement. In many cases, the economic benefits generated by cooperatives are not fully reflected in conventional financial indicators such as turnover, assets, or Net Surplus (SHU). A substantial portion of the value created by cooperatives is transferred directly to members through lower purchase prices, higher selling prices, reduced transaction costs, improved market access, stronger bargaining power, and greater business certainty.

As a result, evaluating cooperatives solely through conventional financial measures may underestimate their actual economic contribution. A cooperative with a relatively small Net Surplus (SHU) may generate substantial economic benefits for members, while a cooperative with a large financial surplus may not necessarily maximize member welfare. This distinction represents one of the fundamental differences between cooperatives and investor-owned firms.

To address this issue, the concept of the Cooperative Effect is introduced as a broader framework for understanding the total economic benefits generated through cooperative participation. The Cooperative Effect encompasses both benefits recorded in financial statements and benefits enjoyed directly by members but not reflected in organizational accounts. Through this perspective, cooperatives can be evaluated not only as business organizations but also as mechanisms for creating economic value, improving member welfare, and strengthening local economic resilience.

This chapter examines the concept of the Cooperative Effect, including consumer surplus, producer surplus, transaction cost efficiency, market access, and bargaining power. Together, these dimensions provide a more comprehensive understanding of how cooperatives create value for members and why cooperative performance cannot be fully assessed through Net Surplus (SHU) alone.

2. Concept and Dimensions of the Cooperative Effect

In cooperative management practice, business performance is often measured using conventional financial indicators such as Net Surplus (SHU) distributed to members. However, this approach does not fully reflect the actual economic benefits received by members. This aligns with Henry Hansmann's view that cooperatives are not designed to maximize firm profit, but to maximize member benefits (Hansmann, 1996). Thus, a significant portion of economic value in cooperatives does not always appear as organizational profit, but is directly enjoyed by members.

Within a broader framework, John R. Commons viewed cooperatives as institutional forms designed to address market imperfections through collective action (Commons, 1934). Cooperatives enable members to obtain fairer transaction conditions than they would achieve individually. Thus, cooperatives not only generate financial gains but also create economic value through improving the market structure faced by members.

Based on this perspective, the concept of the cooperative effect can be understood as the total economic benefits received by members as a result of collective participation in cooperatives. These benefits consist of two main dimensions. First, benefits recorded financially, such as NSD/ SHU distributed to members. Second, benefits not recorded in financial statements, such as lower purchase prices for retail consumers, better selling prices for small producers, transaction cost efficiency, and increased market certainty.

Economically, these unrecorded benefits can be explained through the concept of surplus and efficiency. In welfare economics theory, as developed by Paul Samuelson and popularized in modern literature by Gregory Mankiw, consumers gain consumer surplus, defined as the difference between willingness to pay and the price actually paid (Samuelson, 1947; Mankiw, 2021). In cooperatives, this surplus increases because prices become more efficient. On the other hand, small producers gain producer surplus through better selling prices and lower production costs.

Furthermore, cooperative-generated efficiency can also be explained through transaction cost theory developed by Oliver Williamson, where collective organization of economic activities reduces costs of information search, negotiation, and distribution (Williamson, 1985).

A key characteristic of the cooperative effect is that much of these benefits are not recorded as corporate profit but are directly "returned" to members in the form of better prices, lower costs, or more efficient services. This explains why cooperatives often appear to have lower financial performance compared to capital-based firms, even though the total economic benefits generated for members may be significantly larger (Birchall, 2011).

Thus, cooperative success cannot be assessed solely based on turnover or NSD/ SHU, but must consider the total cooperative effect generated. This perspective provides a more comprehensive way of evaluating the role of cooperatives as economic institutions and serves as a foundation for understanding the subsequent discussion on cooperative management in improving member welfare.

3. Consumer Surplus in Cooperatives

As explained in the previous section, the cooperative effect is not only reflected in the distribution of Net Surplus (SHU), but also in the direct economic benefits received by members through their transactions with the cooperative. One of the most important forms of these benefits is consumer surplus, defined as the difference between a consumer's willingness to pay (WTP) and the actual price paid for a good or service (Samuelson, 1947; Mankiw, 2021).

In consumer and retail cooperatives, consumer surplus increases because cooperatives are able to provide goods and services at prices lower than those available in conventional markets. This advantage is generated through collective efficiency, which arises from the aggregation of member demand, collective purchasing, stronger bargaining power, shorter distribution channels, and lower transaction costs. Unlike investor-owned firms that retain efficiency gains as profits, cooperatives transfer these gains directly to their members through lower prices and improved purchasing conditions.

Economically, consumer surplus can be illustrated using the quantity demanded, which represents consumers' willingness to pay. Under normal market conditions, members purchase goods and services individually at the prevailing market price (P_m), generating a baseline level of consumer surplus. Through cooperative participation, however, members benefit from lower effective prices resulting from collective purchasing power. The cooperative price (P_c) is therefore lower than the market price:

$$P_c < P_m$$

The reduction in price increases members' purchasing power, enabling them to purchase a larger quantity of goods and services than would be possible through individual transactions. Consequently, consumer surplus expands in two ways: first, because members pay a lower price for units they would have purchased anyway; and second, because lower prices enable additional consumption that previously could not be afforded.

This process is represented by the shift from D_m (Member Demand) to D_c (Cooperative Demand). The shift does not reflect a change in consumer preferences or tastes. Rather, it reflects an increase in effective demand generated by collective action. By aggregating demand and exercising collective buying power, cooperative members face lower effective prices, which increases their purchasing capacity and allows them to consume larger quantities of goods and services.

As a result, the area representing consumer surplus becomes larger under cooperative participation. The additional surplus generated by the difference between the market price (P_m) and the cooperative price (P_c), together with the increase in quantity purchased, constitutes a direct economic benefit enjoyed by members. Much of this benefit is not recorded in the cooperative's financial statements because it accrues directly to members rather than to the cooperative organization itself. Consequently, a substantial portion of the cooperative effect remains invisible under conventional performance measurement systems that focus primarily on profits, assets, and financial returns.

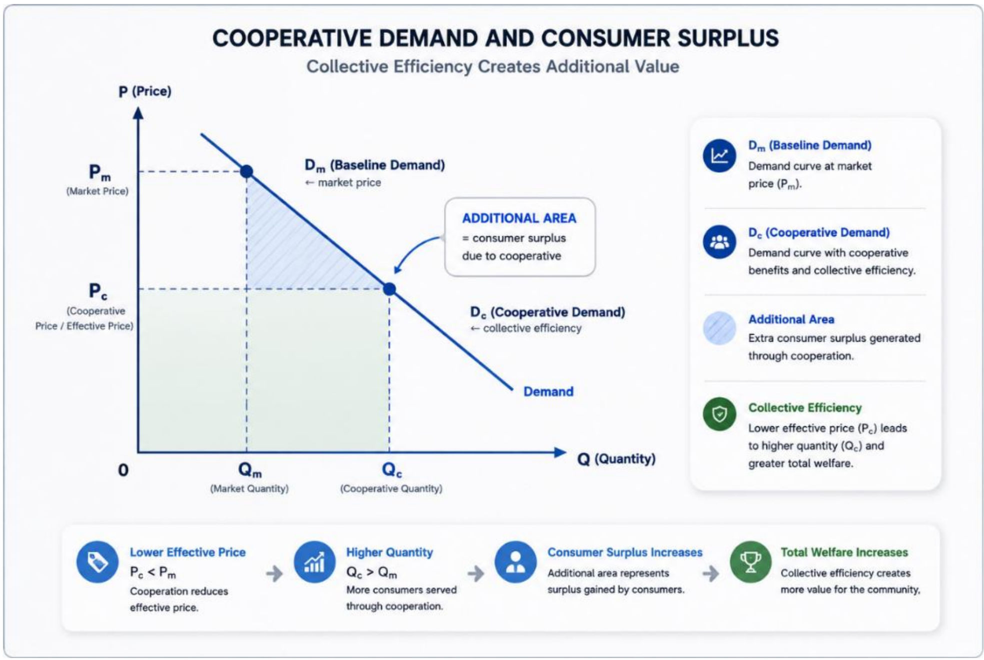

Figure 3. Additional Consumer Surplus

Diagram Explanation

a. P_m: Market price faced by members when purchasing individually.
b. P_c: Lower price obtained through cooperative collective purchasing.
c. D_m (Member Demand): Demand under individual purchasing conditions before cooperative intervention.
d. D_c (Cooperative Demand): Effective demand after cooperative intervention. Lower prices generated by collective purchasing power increase members' purchasing capacity, allowing them to purchase larger quantities of goods and services.
e. Q_m: Quantity purchased at the market price.
f. Q_c: Quantity purchased through the cooperative, where Qc > Qm.
g. Additional Consumer Surplus: Additional welfare gained by members from paying lower prices and consuming larger quantities through cooperative participation.

The shift from D_m to D_c does not arise from changes in individual preferences, but from the increased purchasing power generated by collective action. Through aggregated demand and collective buying power, cooperative members face lower effective prices, allowing them to purchase larger quantities and achieve higher consumer surplus than would be possible through individual market transactions.

Illustration Example

Assume a member purchases a monthly household consumption package through a cooperative for IDR 350,000 per month. The cooperative price is 10% cheaper than the general market price.

a. Purchases in the general market (P_m) = IDR 350,000
b. Price saving in the cooperative = 10%
c. Purchases in the cooperative (Pc) = IDR 315,000
d. Consumption value per month (Q) = 1 package

Additional consumer surplus:

$$(P_m - P_c) \times Q = (350.000 - 315.000) \times 1 = Rp35.000/Month$$

Thus, members obtain an economic benefit in the form of shopping savings of IDR 35,000 per month or IDR 420,000 per year from purchasing goods through the cooperative.

This shows that cooperatives improve member welfare through a simple yet fundamental mechanism, namely reducing prices without changing consumption levels. This benefit is received in the form of direct savings, without requiring an increase in income. In this framework, cooperatives do not only function as distribution channels for goods, but also as economic mechanisms that systematically enhance member welfare through the increase of consumer surplus.

4. Producer Surplus in Cooperatives

In producer cooperatives, members act simultaneously as suppliers and owners of the organization. As suppliers, members receive economic benefits in the form of producer surplus, which can be broadly understood as the difference between the revenue received from selling output and the cost incurred in producing that output (Samuelson, 1947; Mankiw, 2021).

In many agricultural markets, small producers often face weak bargaining positions due to market imperfections such as monopsony, oligopsony, information asymmetry, and the dominance of intermediaries. Under these conditions, producers frequently receive prices below the fair economic value of their products because they negotiate individually with buyers who possess greater market power.

Producer cooperatives address this problem through collective marketing. By aggregating members' output, cooperatives increase transaction volume, strengthen bargaining power, improve market access, and reduce dependence on intermediaries. As a result, cooperatives are often able to negotiate better prices and more favorable contractual arrangements than individual producers could obtain on their own.

Consequently, the price received by members increases from a monopsony-depressed market price (Pm) to a higher cooperative price (Pc), where:

$$Pc > Pm$$

The higher price reflects the economic value created through collective action and stronger bargaining power. Over time, more stable and attractive prices may also encourage members to increase production and market a larger quantity of output through the cooperative, resulting in an increase in marketed volume from Q_m to Q_c.

In addition to improving selling prices, cooperatives may further increase producer surplus by reducing production and transaction costs. These benefits may include access to lower-cost inputs, more efficient logistics and transportation services, technical assistance, veterinary services, financing support, and improved access to production technologies. From a transaction cost perspective, collective organization reduces search, negotiation, monitoring, and distribution costs (Williamson, 1985).

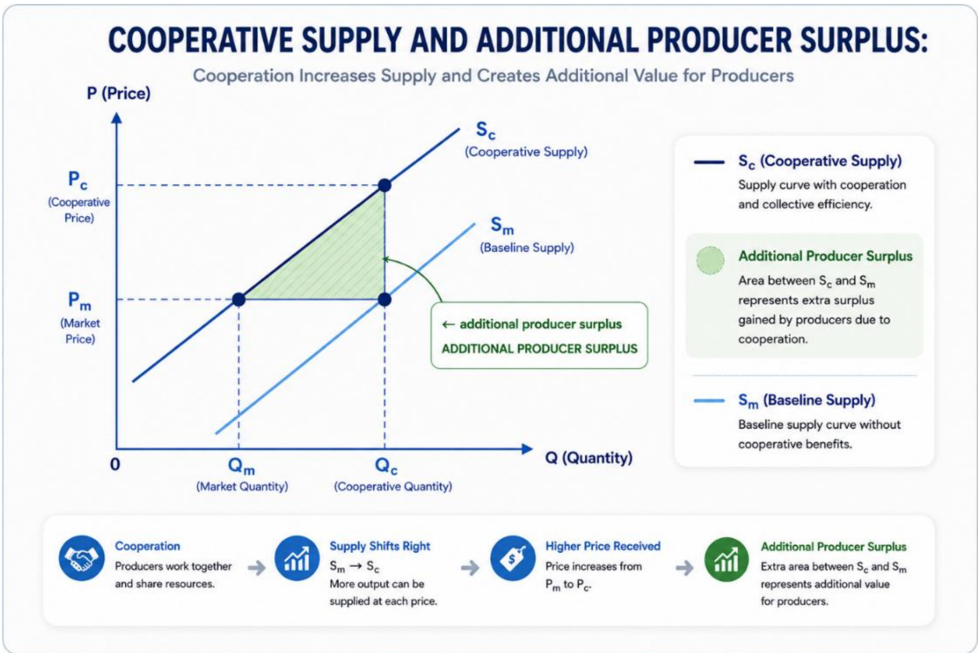

Figure 4. Additional Producer Surplus

Explanation of the Diagram

1. P_m : Market price received by producers without cooperative intervention.
2. P_c : Price received by producers through cooperative marketing.
3. $P_c - Pm$: Additional producer surplus received by cooperative members.
4. Q_m : Quantity marketed before cooperative intervention.
5. Q_c : Quantity marketed through the cooperative after improved market access and stronger bargaining power.

Economically, the increase in price and marketed quantity generates additional producer surplus that is directly enjoyed by members in the form of higher net income. Unlike investor-owned firms, where efficiency gains are largely reflected in corporate profits, many of the economic benefits generated by producer cooperatives are transferred directly to members through better prices, lower costs, and improved market access. Consequently, a substantial portion of the economic value created by cooperatives is not recorded in the cooperative's financial statements.

Therefore, performance measurement based solely on Net Surplus (SHU) does not fully capture the economic contribution of producer cooperatives. A comprehensive evaluation should also consider the additional producer surplus received by members as a result of collective marketing, stronger bargaining power, and reduced transaction costs.

Illustration Example

Before joining the cooperative, dairy farmers received a market price (Pm) of IDR 8,000 per liter of fresh milk. Through collective marketing conducted by the cooperative, the price received increased to IDR 9,000 per liter (Pc), generating an additional producer surplus of:

$$\mathbf{Pc - Pm = IDR\ 1{,}000\ per\ liter}$$

If a member supplies 75 liters of fresh milk per day, the additional income generated through the cooperative is:

Additional income per day
= 75 × IDR 1,000 = IDR 75,000
Additional income per month (30 days)
= IDR 75,000 × 30 = IDR 2,250,000

This illustration demonstrates that cooperatives improve member welfare not only through Net Surplus (SHU) distribution, but also through better selling prices, stronger bargaining power, and more secure market access. These benefits constitute an important component of the cooperative effect that is often overlooked in conventional financial performance measurement.

5. Measurement of Cooperative Effect on Consumer Members

The economic benefits of cooperatives for consumer members are not only reflected in financial indicators such as turnover and Net Surplus (SHU), but also in direct benefits received through daily transactions. To capture these benefits more comprehensively, the concept of the cooperative effect is used, namely the total economic benefits obtained by members as a result of participation in the cooperative.

In consumer cooperatives, the cooperative effect mainly comes from two components: consumer surplus and transaction cost efficiency. Consumer surplus reflects the benefit obtained because the price paid is lower than the market price (Samuelson, 1947; Mankiw, 2021). Meanwhile, transaction cost efficiency reflects savings arising from a more efficient exchange process, such as reduced transportation costs, time, and information search costs (Coase, 1937; Williamson, 1985).

In simple terms, the cooperative effect for consumer members can be expressed as:

$$\mathbf{CE = CS + TR}$$

where:
CS (Consumer Surplus): benefits from lower prices
TR (Transaction Cost Reduction): savings in transaction costs

Illustration Example

If members obtain price savings of IDR 35,000 per month and transaction cost savings of IDR 28,000 per month, then in one year the benefits amount to IDR 420,000 in consumer surplus and IDR 336,000 in transaction cost savings. Thus, the total cooperative effect (CE) reaches IDR 756,000 per year.

This calculation shows that most cooperative benefits are not recorded in financial statements but are directly experienced by members in the form of savings and efficiency. Therefore, conventional financial indicators alone are insufficient to fully capture the cooperative's contribution to member welfare.

6. Measurement of Cooperative Effect on Producer Members

The economic benefits of cooperatives for producer members are reflected not only in cooperative financial results but also in increased income and efficiency directly experienced by members. The cooperative effect represents the total economic benefits obtained through collective participation.

In producer cooperatives, the cooperative effect comes from two components: producer surplus (PS) and transaction cost efficiency (TR). Producer surplus reflects additional benefits from higher selling prices and/or increased sales volume (Samuelson, 1947; Mankiw, 2021). Transaction cost efficiency reflects savings in marketing, information, negotiation, and distribution costs previously borne individually (Coase, 1937; Williamson, 1985).

In simple terms:

$$CE = PS + TR$$

where:

PS (Producer Surplus): benefits from higher prices and increased volume
TR (Transaction Cost Reduction): savings in transaction costs

Illustration Example

A member of a milk cooperative markets their milk through the cooperative. As a result, the member obtains additional income (producer surplus) of IDR 2,250,000 per month, equivalent to IDR 27,000,000 per year (12 × monthly additional income). In addition, the member benefits from transaction cost savings—including transportation, market search, and negotiation costs—amounting to IDR 16,000 per month or IDR 192,000 per year (12 × monthly transaction cost savings).Thus, the total cooperative effect (CE) is:

CE = IDR 27,000,000 + IDR 192,000 = IDR 27,192,000 per year

This shows that the main benefits for producers come from higher selling prices and market certainty, while transaction cost efficiency provides additional gains that strengthen welfare.

7. Conclusion

The discussion in this chapter demonstrates that the economic contribution of cooperatives extends far beyond the financial performance reported in organizational accounts. While turnover, assets, and Net Surplus (SHU) remain important indicators, they capture only a portion of the value generated through cooperative activities.

The concept of the Cooperative Effect provides a broader perspective by recognizing that cooperatives create value not only for the organization but also directly for members. Through lower consumer prices, better producer prices, transaction cost reductions, improved market access, and stronger bargaining power, cooperatives generate substantial economic benefits that often remain invisible in conventional financial statements.

For consumer members, these benefits appear in the form of consumer surplus and transaction cost savings. For producer members, they appear as higher producer surplus, improved market certainty, and greater access to economic opportunities. Collectively, these benefits contribute to higher incomes, lower costs, and improved economic security for members.

Beyond individual member benefits, cooperatives also contribute to local economic development by stimulating economic circulation, supporting employment, strengthening value chains, and increasing community resilience. Consequently, the impact of cooperatives extends beyond the organization itself and becomes part of a broader process of inclusive and sustainable development.

Therefore, the evaluation of cooperative performance should move beyond a narrow focus on Net Surplus (SHU) and incorporate the broader Cooperative Effect generated for members and communities. Such an approach provides a more accurate understanding of the distinctive economic role of cooperatives and their contribution to member welfare, economic democracy, and local development.

Discussion Questions

1. What is meant by the Cooperative Effect, and why is it important in evaluating cooperative performance?
2. Why can cooperative performance not be assessed solely through Net Surplus (SHU)?
3. How does consumer surplus contribute to member welfare in consumer cooperatives?
4. How do cooperatives increase producer surplus for producer members?
5. What is the relationship between transaction cost reduction and the Cooperative Effect?
6. How does collective action enable cooperatives to create economic value for members?
7. Explain the difference between Consumer Surplus and Producer Surplus in the context of cooperatives.
8. How can the Cooperative Effect be measured for consumer members?
9. How can the Cooperative Effect be measured for producer members?
10. Why should cooperative evaluation incorporate both financial performance and member economic benefits?

CHAPTER X

FRAMEWORK AND SIMULATION OF RETAIL COOPERATIVE MANAGEMENT

1. Introduction

This chapter discusses the framework for managing retail cooperatives in Indonesia as a system that integrates business functions with the principle of member democracy. A cooperative is not only understood as a business entity that conducts commercial activities, but also as a collective economic organization that positions members as both owners and users (dual identity).

In contrast to capital-based enterprises, cooperative management is oriented toward creating member benefits through collective efficiency, economic participation, and fair value distribution. Therefore, cooperative management does not only cover operational business aspects, but also includes membership management, organizational governance, planning and budgeting, as well as accountable reporting and supervision systems.

This chapter presents a conceptual framework as a basis for understanding cooperative management, as well as its implementation practices in Indonesia. The discussion includes organizational instruments, membership management, work plan and budget (RAPB) preparation, business and profit management, and reporting and supervision mechanisms. Through this approach, cooperatives are expected to develop into professional, efficient, democratic, and sustainable enterprises.

2. Concept of Cooperative Management

Managing a cooperative is essentially the process of planning, organizing, directing, and controlling all cooperative resources so that organizational goals can be achieved effectively, efficiently, and sustainably. This approach aligns with the classical management functions (planning, organizing, actuating, controlling), which emphasize systematic resource management to achieve shared objectives (Henri Fayol, 1949; Peter Drucker, 2007). In cooperatives, these resources include assets, own capital, loans, equity participation capital, human resources, technology, information, and business networks.

However, cooperative management has distinctive characteristics because a cooperative is not merely a profit-seeking business entity, but a member-based economic organization. Therefore, every economic decision must comply with the principles of member democracy, member economic participation, and service orientation. The measure of cooperative success is not only financial efficiency but also the ability to create real benefits for members, such as better prices, access to services, income improvement, and strengthened member bargaining position (Birchall, 2011; Novkovic, 2008).

From a governance perspective, cooperatives integrate two dimensions simultaneously: the business dimension and the member association dimension. As a business entity, a cooperative must be financially healthy, competitive, and adaptive to market changes. As a member organization, it must uphold participation, transparency, accountability, and distributive fairness. The balance between these two dimensions is the core of modern cooperative management (Cornforth, 2004; International Co-operative Alliance, 2015).

In addition, cooperative management should be understood through the concept of collective efficiency, which refers to efficiency that emerges because members conduct economic activities jointly through the cooperative. By aggregating demand, procurement, production, distribution, financing, or marketing activities, cooperatives can reduce transaction costs, achieve economies of scale, strengthen bargaining power, and improve supply chain efficiency. These added values are generally difficult to achieve when members act individually in the market.

Operationally, cooperative management covers three main areas: membership management, business management, and financial management. All of these operate within a governance cycle that starts from proposals by the management board to the members' meeting, implementation of decisions, accountability reporting, supervision, and returns again to the next planning stage. This framework is summarized in Table 26.

Table 26. Conceptual Framework of the Cooperative Management Cycle

Stage of the Cooperative Management Cycle	Description
General Meeting of Members (Initial Policy Approval)	General Meeting of Members (Initial Approval) – Establishes policy directions, approves the work program and Annual Revenue and Expenditure Budget Plan (RAPB), and grants mandates to the Board of Directors and Supervisory Board.
Planning	Planning – The Board prepares and submits the work program, business targets, and the Annual Revenue and Expenditure Budget Plan (RAPB) for approval by the General Meeting of Members.
Organizing	Organizing – Establishes the organizational structure, allocation of responsibilities among directors/managers/supervisors, standard operating procedures (SOPs), administrative systems, business unit divisions, and human resource placement.
Directing	Directing – Leads business operations, member services, marketing activities, capital mobilization, human resource development, member education, and work motivation.
Administrative Operations and Recordkeeping	Administrative Implementation – Conducts transaction recording, bookkeeping, member documentation, asset inventory management, and preparation of managerial reports.
Reporting and Accountability	Reporting and Accountability – Prepares management reports, business activity reports, financial statements, and submits accountability reports to the General Meeting of Members.
Supervision and Oversight	Supervision – Supervisors and members evaluate compliance, business performance, financial health, and the achievement of member benefits.
Continuous Management Cycle	Continuous Cycle – Evaluation results serve as the basis for preparing the work program and RAPB for the next period.

Through this cycle, cooperatives are not only managed as business enterprises but also as democratic organizations accountable to their members. Each stage is interconnected: planning without supervision risks deviation, operations without bookkeeping are difficult to evaluate, and finance without accountability reduces member trust. Therefore, the quality of cooperative governance depends heavily on disciplined and consistent execution of the full management cycle.

3. Cooperative Organizational Structure

The governance structure of a cooperative reflects the principle of member democracy. Unlike capital-based enterprises, where decision-making power is generally linked to the amount of capital invested, authority in a cooperative is derived from membership through the principle of *one member, one vote*. This principle ensures that governance is based on democratic participation rather than capital ownership (International Co-operative Alliance, 2015; Cornforth, 2004).

According to Indonesian cooperative regulations, the governance structure consists of three principal organs: the Members' Meeting, the Management Board, and the Supervisory Board. Together, these organs perform the core functions of strategic decision-making, business management, and internal oversight, enabling the cooperative to operate effectively as both a business enterprise and a member-owned organization.

The Members' Meeting serves as the highest authority within the cooperative and is responsible for determining major policies, approving strategic plans, and electing the Management Board and Supervisory Board. The Management Board is responsible for implementing policies and managing the cooperative in accordance with decisions made by the Members' Meeting, while the Supervisory Board oversees management performance and ensures accountability to the members.

In modern cooperative practice, the Management Board may appoint professional managers to conduct day-to-day business operations and provide specialized managerial expertise. However, managerial authority is delegated rather than transferred, meaning that ultimate responsibility for the cooperative's performance remains with the Management Board, which is accountable to the Members' Meeting.

a. Members' Meeting

The Members' Meeting is the highest authority in the cooperative. It serves as a forum for members to determine strategic direction, evaluate performance, and make key decisions. Its authority includes approving bylaws, electing and dismissing management and supervisors, approving work plans, financial reports, and determining profit distribution. This confirms that legitimacy in cooperatives comes from members, not from capital contributions (Birchall, 2011; Novkovic, 2008).

b. Management Board

The Management Board is responsible for managing the cooperative and its business operations. It performs strategic and managerial functions such as preparing work plans, setting business policies, managing assets and finances, administering the organization, and representing the cooperative legally. In management theory, the board operates at the levels of planning, organizing, directing, and controlling (Cornforth, 2004).

c. Supervisory Board

The Supervisory Board is responsible for overseeing policies and cooperative management. This function ensures accountability, prevents irregularities, and guarantees that the cooperative operates in accordance with member decisions and prudential principles. It serves as an internal control mechanism that strengthens member trust (ICA, 2015).

d. Management / Professional Managers

As cooperative businesses grow more complex, the Management Board may appoint professional managers. They are responsible for daily operations, employee management, member services, and performance reporting. The relationship between the board and management is delegative and professional: management reports to the board, and the board is accountable to the Members' Meeting. This model enables cooperatives to combine member democracy with modern business efficiency (Birchall, 2011).

Cooperative organizational instruments show that a cooperative is not only a business entity but also an institution of economic democracy. The Members' Meeting ensures member control, the Management Board ensures business direction, the Supervisory Board maintains accountability, and professional management enhances operational efficiency. The synergy of these four elements forms the foundation of a healthy, competitive, and sustainable cooperative.

4. Work Plan Submission

A Work Plan is a managerial decision about what the cooperative will do in the coming fiscal year. In cooperative governance, the work plan is prepared by the management board and submitted to the Members' Meeting for discussion and approval as a guideline for business and organizational implementation. Thus, the work plan is not merely an administrative document, but a collectively agreed direction with democratic legitimacy from members.

For cooperatives, the work plan functions as a roadmap to achieve business targets, member services, and financial health. Through the work plan, cooperatives determine priorities, assign tasks, prepare budgets, and coordinate resources toward shared goals. A work plan typically includes objectives, programs, targets, performance indicators, resource needs, implementation schedules, and projections of revenue, expenses, and surplus.

The preparation of a work plan usually begins with evaluating the previous year's performance, identifying opportunities and threats, and then setting priorities for the coming year. After approval by the Members' Meeting, the work plan becomes the basis for budget preparation (RAPBK), implementation, monitoring, and periodic evaluation. Because cooperatives operate as going concerns, this process is repeated annually as a cycle of continuous improvement.

For illustration, below is a simple example of a retail cooperative work plan.

Table 27. Example of Retail Cooperative Work Plan

Area	**Program**	**Target**	**Indicator**
Membership	Recruitment of new members	100 members	Increase in members
Membership	Member education	4 sessions	Attendance ≥ 75%
Business	Product expansion	50 products	Sales increase 20%
Business	Online ordering service	Active in Semester I	50 transactions/month
Finance	Increase mandatory savings	+15%	Higher own capital
Finance	Operational efficiency	-10%	Lower expense ratio
HR	Cashier/admin training	2 sessions	Faster service
Supervision	Internal audit	4 times	Timely reports

This example shows that a work plan must be concrete, measurable, and evaluable, enabling the management board to be accountable to the Members' Meeting at the end of the fiscal year.

5. Cooperative Budget Plan (RAPBK)

The RAPBK (Revenue and Expenditure Budget Plan) is the financial representation of the cooperative's work plan for one fiscal period, usually one year. If the work plan explains what will be done, the RAPBK explains how much funding is required, where it comes from, how it is used, and what results are expected. In cooperative governance, the management board prepares and submits the RAPBK to the Members' Meeting for discussion, refinement, and approval as a financial and operational guideline.

The RAPBK serves as a planning, coordination, and control tool. It sets revenue targets, controls expenses, plans working capital needs, projects business surplus, and maintains financial discipline. In other words, it translates the work plan into measurable financial terms. In management theory, budgeting is a key instrument to ensure strategy implementation (Peter Drucker, 2007).

In retail cooperatives, the RAPBK typically includes sales targets, cost of goods sold, operating expenses, capital requirements, asset investment plans, and Net Surplus (SHU) projections. Once approved by the Members' Meeting, actual performance is compared with the RAPBK for evaluation and accountability at year-end.

Below is a simple illustration of a retail cooperative RAPBK aligned with the previous work plan.

Table 28. Example RAPBK of Retail Cooperative

Description	Current Year	Privious Year	Growth (%)
Sales Revenue	xxx	xxx	xxx
Cost of Goods Sold	xxx	xxx	xxx
Gross Surplus	xxx	xxx	xxx
Operating Expenses	xxx	xxx	xxx
Net Surplus (SHU)	xxx	xxx	xxx

This table shows that the cooperative targets sales growth while maintaining efficiency, resulting in a higher growth rate in Net Surplus (SHU) than revenue growth. This indicates that business growth is not only about turnover but also about business quality.

In addition to income and expense reports, RAPBK should also reflect market position, capital structure, productive assets, and member benefits. This information is important to assess whether business growth truly strengthens the cooperative and improves member welfare.

Table 29. Projection of Market Position, Assets, Capital, and Member Benefits

Description	Privious Year	Current Year	Growth (%)
Active Members	xxx	xxx	xxx
Cooperative Assets	xxx	xxx	xxx
Own Capital	xxx	xxx	xxx
Loan Capital	xxx	xxx	xxx
Return on Capital	xxx	xxx	xxx
Patronage Refund	xxx	xxx	xxx
Consumer Surplus	xxx	xxx	xxx

This table shows that the cooperative targets balanced and healthy growth. Active members increase as an indicator of market expansion. Assets and own capital rise, indicating stronger business capacity. Loan capital remains controlled and supported by internal capital growth. Meanwhile, returns on capital and patronage refunds also increase, meaning that more of the cooperative's results are returned to members.

With this, the RAPBK is not merely a list of numbers, but a strategic instrument to ensure that the cooperative grows in a healthy, efficient, accountable manner, and remains oriented toward member benefits.

6. Management and Reporting of Cooperative Operating Results

The management of cooperative operations is essentially the process of managing assets, capital, liabilities, revenues, and expenses as a single economic system to generate optimal surplus for member benefits. The results of this management are then calculated in the Operating Results Statement (Perhitungan Hasil Usaha/PHU) and reported to the Members' Meeting as a form of accountability and as a basis for decision-making.

Assets are economic resources controlled by the cooperative that are expected to provide future benefits. In cooperatives, assets are not merely organizational wealth, but instruments for member services. Therefore, buildings, warehouses, vehicles, machinery, information technology, and inventories must be secure, productive, and relevant to members' needs.

Assets that do not generate real benefits risk becoming a burden and reducing efficiency (Novkovic, 2008; Cornforth, 2004).

Equity (own capital) is the residual claim of members over assets after deducting liabilities. In cooperatives, equity reflects members' economic participation and organizational independence. Its sources may include principal savings, mandatory savings, reserves, grants, and retained surplus. The stronger the equity position, the greater the cooperative's ability to grow without excessive dependence on external parties (Birchall, 2011).

Borrowed capital is a funding source obtained from external parties that must be repaid under agreed terms. It serves as a complement to equity for working capital, productive investment, or business expansion. Since it creates principal repayment obligations and financing costs, its use must be aligned with the cooperative's cash flow capacity so as not to disrupt member services (Chaddad & Cook, 2004; Roelants et al., 2015).

Member-invested capital is funds or assets contributed by investors to strengthen cooperative capital without voting rights (non-voting rights). This instrument allows cooperatives to obtain additional financing without reducing democratic control by members through the Members' Meeting. Its use should be directed toward productive assets that enhance member benefits (Chaddad & Cook, 2004).

Cooperative revenue is the inflow of economic benefits generated from business activities, primarily from transactions between members and the cooperative. The higher the level of member participation in purchasing, selling, saving, borrowing, or using cooperative services, the greater the potential revenue and benefits that can be returned to members (Birchall, 2011; Novkovic, 2008).

Cooperative expenses are economic sacrifices incurred to operate the business and generate revenue, such as cost of goods sold, salaries, interest expenses, rent, utilities, depreciation, distribution, administration, and information technology costs. In cooperatives, expenses can be understood as a form of collective cost sharing. Fixed costs borne collectively by many members reduce per-member costs and create shared efficiency. Therefore, expense management is not merely about cost reduction, but ensuring that every cost generates real benefits for members.

From business management outcomes, cooperatives are expected to generate a Net Surplus (SHU), which is the positive difference between revenue and expenses during a given period. In cooperatives, surplus is not merely commercial profit, but the result of efficiency, member participation, and collective business success whose benefits are returned to members while also strengthening the institution (Birchall, 2011; Novkovic, 2008).

Surplus is allocated to balance direct member benefits, business strengthening, and cooperative sustainability. In Indonesia, based on the decision of the Members' Meeting, the cooperative surplus presented in the PHU statement is generally allocated to:

a. Limited Return on Capital – a reasonable return on member savings or capital, but not dominant so that capital does not become the center of power.
b. Patronage Refund / Member Service Return – distributed based on the level of member transactions with the cooperative, not based on the amount of capital owned.
c. Reserve Fund – to strengthen institutional capital, cover potential losses, and support business development.
d. Cooperative Education – to improve the capacity of members, management, supervisors, and staff.

7. Submission of Financial Reports and Accountability for Duties

Cooperative management is required to prepare and submit financial reports and accountability reports to the Members' Meeting as a form of accountability for the management of cooperative resources and business activities.

a. Financial Reports

Financial reports provide information on the cooperative's financial position, business performance, and surplus generated during a specific accounting period. In general, cooperative financial reports consist of:

1) Annual Balance Sheet, which presents assets, liabilities, and equity at the end of the accounting period.
2) Annual Operating Results Statement (PHU Statement), which presents revenues, expenses, and Net Surplus (SHU).
3) Proposed SHU Allocation Statement, which presents the planned allocation of Net SHU for approval by the Members' Meeting.

Annual Balance Sheet

The balance sheet shows the cooperative's financial position at a specific date.

Table 30. Example of Cooperative Retail Balance Sheet

Account	Previous Year	Current Year	Growth (%)
Cash & Bank	xxx	xxx	xxx
Accounts Receivable	xxx	xxx	xxx
Inventory	xxx	xxx	xxx
Fixed Assets (net)	xxx	xxx	xxx
Total Assets	xxx	xxx	xxx
Trade Payables	xxx	xxx	xxx
Borrowed Capital	xxx	xxx	xxx
Total Liabilities	xxx	xxx	xxx
Member Capital	xxx	xxx	xxx
Reserves	xxx	xxx	xxx
Net Surplus (SHU)	xxx	xxx	xxx
Equity	xxx	xxx	xxx
Liabilities + Equity	xxx	xxx	xxx

Annual Statement of Operations (PHU) Statement

The PHU Statement presents revenues, expenses, and Net SHU generated during the accounting period.

Table 31. Example of Cooperative Retail PHU Statement

Description	Previous Year	Current Year	Growth (%)
Sales Revenue	xxx	xxx	xxx
Cost of Goods Sold	xxx	xxx	xxx
Gross Surplus	xxx	xxx	xxx
Salaries & Fees	xxx	xxx	xxx
Rent & Utilities	xxx	xxx	xxx
Administration Expenses	xxx	xxx	xxx
Depreciation Expense	xxx	xxx	xxx
Other Expenses	xxx	xxx	xxx
Operating Expenses	xxx	xxx	xxx
Net Surplus (SHU)	xxx	xxx	xxx

Proposed Net Surplus (SHU) Allocation Statement

Following the determination of the annual Net Surplus (SHU), management may submit a proposed allocation plan for approval by the Members' Meeting.

Table 32. Example of Net Surplus (SHU) Allocation for Cooperative Retail

Description	Percentage	Amount (IDR)
Reserve Fund	xxx	xxx
Patronage Refund	xxx	xxx
Return on Capital	xxx	xxx
Cooperative Education	xxx	xxx
Social Fund	xxx	xxx
Total Net Surplus (SHU)	xxx	xxx

Thus, submitting financial reports to the Members' Meeting is not merely a formality, but the main mechanism of economic democracy in cooperatives, where members evaluate, supervise, and determine future business direction.

b. Management Accountability Report

The management accountability report is a report submitted to the Members' Meeting describing the overall implementation of managerial duties during one period. It reflects management accountability as a responsibility center in managing cooperative business activities and resources.

Generally, this report includes:

1) Business activities carried out, describing all operational activities during the period, including services provided to members.
2) Achievement compared to plans or targets, showing the extent to which goals were achieved in terms of volume, growth, and performance.
3) Budget realization, comparing actual spending with planned budgets to assess efficiency and cost control.
4) Constraints faced and solutions taken, explaining operational challenges and corrective actions implemented or planned.

Through this report, members can comprehensively assess management performance, not only from a financial perspective but also from operational and governance aspects.

Illustrative Example

At the Annual Members' Meeting, the management reported that during the 2026 financial year, the cooperative succeeded in increasing sales by 8.97% compared to the previous year. The target for new member recruitment was achieved at 90% of the plan, while operational cost efficiency was improved through expenditure control.

However, the management also reported challenges in the form of delays in product supply during several periods, which affected product availability. To address this issue, the management established cooperation with additional suppliers and improved the procurement system. In terms of budget utilization, actual expenditures remained within the planned limits, and Net Surplus (SHU) increased to IDR 60,000,000. The management then proposed the allocation of Net Surplus (SHU) in accordance with cooperative regulations to be decided in the Members' Meeting.

8. Supervisory Board Accountability Report

The Supervisory Board Accountability Report is a report prepared by the Supervisory Board and submitted to the Members' Meeting as a form of accountability for the implementation of its supervisory responsibilities. The Supervisory Board is responsible for overseeing the implementation of cooperative policies and management, and for preparing written supervisory reports in accordance with applicable laws and regulations.

The purpose of the Supervisory Board is to ensure that cooperative activities are carried out in accordance with the work plan, the Articles of Association and Bylaws, and applicable laws and regulations, as well as to prevent and correct deviations. In general, the Supervisory Board's report covers the scope of supervision over organizational, business, financial, and compliance aspects; supervisory methods such as document review, observation, and data verification; findings in the form of compliance assessments or identified deviations; and conclusions and recommendations that serve as the basis for improving cooperative performance. Through this report, members obtain an objective assessment of the cooperative's management and supporting information for decision-making at the Members' Meeting.

Illustrative Example

At the Annual Members' Meeting, the supervisors reported that the cooperative's financial management was generally in accordance with procedures; however, discrepancies were found between inventory records and physical stock. In addition, there were delays in the preparation of monthly reports.

As recommendations, the supervisors suggested:

1. Improvement of the inventory recording system through regular stock opname (physical stock-taking),
2. Strengthening administrative discipline,
3. Enhancing internal supervision by the management.

9. Conclusion

This chapter shows that retail cooperative management is an integrated system combining modern management principles with the values and principles of economic democracy. Cooperatives are not only required to be financially efficient but must also be able to generate real benefits for members as both owners and users of services.

Through the simulations presented, it is evident that the success of a cooperative depends heavily on the integration of member management, business operations, and financial management within a continuous governance cycle. Proper planning must be followed by disciplined implementation, supported by orderly administrative systems, and strengthened by transparent reporting and supervision mechanisms.

The distinctive feature of cooperatives lies in the dual identity of members, which creates alignment between economic interests and ownership. This structure enables a more equitable distribution of value, increases member loyalty, and strengthens long-term business resilience.

The simulations in this chapter confirm that cooperatives managed professionally, participatively, and accountably have the potential to develop as both efficient and inclusive enterprises. Therefore, strengthening governance and member participation is the key to building resilient, competitive, and sustainable cooperatives in facing modern economic dynamics.

Discussion Questions

1. What is the main difference between cooperative management and capital-based companies?
2. How does the cooperative management cycle ensure accountability to members?
3. Why must the work plan and budget (RAPBK) be approved by the Members' Meeting?
4. How can member management improve cooperative business performance?
5. What is the relationship between member participation and the increase of Net Surplus (SHU)?
6. Why are financial reports important in cooperative governance?
7. What is the role of supervisors in maintaining cooperative health?
8. How does a cooperative maintain a balance between business efficiency and democratic values?
9. Based on the simulation, what is the most determining factor in retail cooperative success?

CHAPTER XI

COOPERATIVE RISK MANAGEMENT

1. Introduction

Every organization faces uncertainty in pursuing its objectives, and cooperatives are no exception. As member-owned and democratically controlled enterprises, cooperatives are exposed to a variety of risks that may affect their financial performance, operational continuity, governance quality, and member trust. If these risks are not properly managed, they can weaken the cooperative's ability to provide services, generate economic benefits for members, and sustain long-term organizational development.

Unlike Capital-Based enterprises (CBEs), where ownership and control are primarily linked to capital investment, cooperatives operate through collective ownership and democratic governance. Members simultaneously act as owners, users, and decision-makers, creating unique organizational challenges. Consequently, cooperatives face not only financial and operational risks but also governance and participation risks arising from collective decision-making, member behavior, and institutional arrangements. Cook (1995) argues that modern cooperatives face distinctive organizational risks associated with collective ownership, including free-rider, horizon, portfolio, and control problems.

The operating environment of cooperatives has also become increasingly complex. Market competition, regulatory changes, technological innovation, and digital transformation have introduced new forms of uncertainty that require cooperatives to strengthen their governance and management systems. In addition to traditional business risks such as loan defaults, liquidity shortages, and price fluctuations, cooperatives must also address emerging risks related to cybersecurity, data protection, and organizational reputation.

For this reason, risk management has become an essential component of good cooperative governance. Effective risk management helps cooperatives identify potential threats, assess their significance, implement appropriate mitigation measures, and monitor organizational performance. Beyond preventing losses, risk management contributes to accountability, member protection, organizational resilience, and long-term sustainability.

This chapter examines the concept of cooperative risk, the major categories of risks commonly faced by cooperatives, methods for risk identification and assessment, risk mitigation strategies, and the role of supervision in strengthening cooperative governance and sustainability.

2. Risk Concept in Cooperatives

Risk generally refers to the possibility that an event or condition may affect the achievement of organizational objectives. Modern management views risk not only as a threat but also as uncertainty that must be understood, evaluated, and managed. ISO 31000:2018 defines risk as the "effect of uncertainty on objectives," emphasizing that uncertainty can influence organizational performance either positively or negatively (ISO, 2018).

In the context of cooperatives, risk can be defined as the possibility that internal or external factors may disrupt the cooperative's ability to provide services, achieve business objectives, maintain financial stability, and generate benefits for members. Because cooperatives pursue both economic and social objectives, the consequences of risk often extend beyond financial losses and may affect member participation, organizational legitimacy, and community trust.

The nature of cooperative risk differs from that of investor-owned firms due to the cooperative's democratic ownership structure. The International Co-operative Alliance (ICA) defines a cooperative as an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs through a jointly owned and democratically controlled enterprise (ICA, 1995). As a result, the effectiveness of a cooperative depends not only on business performance but also on member participation, governance quality, and institutional accountability.

From an institutional perspective, Cook (1995) identifies several structural challenges that create distinctive risks within cooperatives. These include:

a. Free-rider problem, where individuals receive benefits without contributing proportionately to the cooperative;
b. Horizon problem, where members prioritize short-term benefits over long-term organizational investment;
c. Portfolio problem, where members have limited ability or willingness to invest additional capital in the cooperative; and

d. Control problem, where members face difficulties in effectively monitoring management and organizational performance.

These challenges demonstrate that cooperative risk originates not only from business activities but also from governance structures and member behavior. Consequently, effective cooperative risk management requires strong member participation, transparent governance, adequate internal controls, and continuous member education.

Institutional economics provides further insight into the role of risk management in cooperatives. North (1990) argues that institutions exist primarily to reduce uncertainty in economic interactions. In this perspective, cooperative rules, governance mechanisms, supervisory systems, and organizational procedures function as institutional arrangements that help reduce risk and improve organizational performance.

The importance of risk management has become even greater in the digital era. Cooperatives increasingly rely on digital platforms, information systems, and electronic transactions to support business operations and member services. While digitalization improves efficiency and accessibility, it also creates new risks related to cybersecurity, data protection, operational disruptions, and reputational management. Therefore, modern cooperatives require an integrated risk management framework that combines business risk management with governance, technology, and institutional oversight.

Understanding the concept and sources of cooperative risk provides the foundation for developing effective risk management systems. The following sections discuss the major categories of cooperative risk and the methods used to identify, assess, and mitigate them.

3. Types of Risks in Cooperatives

Cooperatives face a variety of risks that may affect their ability to achieve organizational objectives and provide sustainable benefits to members. Although the specific risks vary depending on the type of cooperative and business activities undertaken, most cooperative risks can be grouped into six major categories: financial risk, operational risk, governance and membership risk, business and market risk, legal and compliance risk, and strategic and technology risk.

a. Financial Risk

Financial risk refers to the possibility that a cooperative may be unable to meet its financial obligations or maintain adequate liquidity to support its operations. Common examples include loan defaults, delayed member repayments, cash flow shortages, insufficient working capital, and excessive dependence on external financing. Financial risk is particularly significant in savings and loan cooperatives, where poor credit quality can threaten liquidity and member confidence. Effective financial management, credit assessment, reserve funds, and regular financial monitoring are therefore essential to maintaining financial stability (Brealey, Myers, & Allen, 2019).

b. Operational Risk

Operational risk arises from failures in internal processes, human error, inadequate systems, or external events that disrupt daily activities. In cooperatives, operational risks often include accounting errors, weak administrative procedures, fraud, asset losses, inventory management problems, and information system failures. These risks are commonly associated with weak internal controls and limited managerial capacity. The Committee of Sponsoring Organizations (COSO, 2017) emphasizes that strong internal controls, standard operating procedures (SOPs), staff training, and periodic audits are important mechanisms for reducing operational risk.

c. Governance and Membership Risk

Governance and membership risk relates to weaknesses in cooperative decision-making, accountability, supervision, and member participation. Because cooperatives are democratically controlled organizations, their success depends heavily on active member involvement and effective governance structures. Common risks include low participation in Members' Meetings (RAT), weak oversight by supervisory boards, conflicts of interest, lack of transparency, and declining member engagement. Cornforth (2004) argues that cooperatives face unique governance challenges because they must balance business efficiency with democratic member control. Poor governance can ultimately weaken organizational performance and reduce member trust.

d. Business and Market Risk

Business and market risk results from changes in economic conditions, customer preferences, market competition, and price fluctuations. Production cooperatives may be affected by unstable commodity prices, while consumer and retail cooperatives often face increasing competition from private businesses and digital marketplaces. Cooperatives that depend heavily on a single product, supplier, or customer are particularly vulnerable to market changes. Business diversification, innovation, and market expansion are important strategies for reducing market-related risks.

e. Legal and Compliance Risk

Legal and compliance risk arises when a cooperative fails to comply with laws, regulations, licensing requirements, taxation rules, or internal policies. Non-compliance may result in administrative sanctions, financial penalties, legal disputes, or reputational damage. Because cooperatives operate within a regulated environment, management must ensure that all organizational and business activities comply with applicable legal requirements. Proper documentation, regular reporting, and legal oversight are important tools for managing compliance risk.

f. Strategic and Technology Risk

Strategic risk refers to the possibility that cooperative policies, business strategies, or long-term decisions may fail to respond effectively to environmental changes. This includes overreliance on government assistance, failure to adapt to changing member needs, inadequate business innovation, and weak organizational planning. In addition, increasing digitalization has created technology-related risks, including cyber fraud, data breaches, system failures, and misuse of digital information. Cooperatives that fail to adapt to technological change may lose competitiveness and become less attractive to younger generations of members. Therefore, strategic planning, digital transformation, and information security have become increasingly important components of cooperative risk management.

Although these risks are presented separately, they are often interconnected. Weak governance may increase financial and operational risks, while strategic failures may lead to declining member participation and reduced market competitiveness. Consequently, effective cooperative risk management requires an integrated approach that considers the relationship among different risk categories and aligns risk management with the cooperative's overall governance and business strategy.

4. Identification, Measurement, and Assessment of Cooperative Risk

After understanding the nature and types of risks faced by cooperatives, the next step is to identify, measure, and assess those risks systematically. Effective risk management begins with a clear understanding of potential events that may affect the cooperative's ability to achieve its objectives. Without proper identification and assessment, management may overlook critical risks and allocate resources inefficiently.

Risk identification is the process of recognizing potential events or conditions that may negatively affect cooperative performance, governance, financial stability, or member services. The objective is to understand what risks exist, where they originate, and how they may affect the organization. In practice, risk identification may be conducted through various methods, including interviews with managers and members, internal audits, financial statement analysis, operational reviews, Annual Members' Meeting (RAT) evaluations, compliance assessments, and discussions with stakeholders.

Once risks have been identified, the cooperative must evaluate their significance. Risk measurement and assessment are commonly based on two dimensions:

a. Likelihood – the probability that a risk event will occur; and

b. Impact – the magnitude of consequences if the risk occurs.

Assessing these two dimensions enables cooperatives to determine which risks require immediate attention and which can be managed through routine controls. Risks with high likelihood and high impact generally receive the highest priority because they pose the greatest threat to organizational sustainability.

To facilitate decision-making, cooperatives commonly classify risks into three categories: low, medium, and high. High-risk events require immediate mitigation and close monitoring, medium-risk events require preventive actions and periodic review, while low-risk events can generally be managed through standard operational procedures.

Table 33 provides examples of common risks faced by cooperatives and their potential impact on organizational performance.

Table 33. Examples of Cooperative Risks and Risk Levels

Risk	Potential Impact	Risk Level
Loan default	Financial losses and liquidity problems	High
Inventory loss	Operational losses	Medium
Low member participation	Declining business volume and member engagement	High
Failure to conduct Members' Meeting	Weak accountability and governance	High
Data breach	Loss of trust and reputational damage	Medium

The examples in Table 33 demonstrate that cooperative risks may originate from financial, operational, governance, or technological factors. A loan default may reduce liquidity and threaten business continuity, while weak member participation may undermine the cooperative's democratic character and economic performance. Similarly, data security failures may damage member confidence and organizational reputation.

Risk assessment should not be viewed as a one-time activity. Changes in business conditions, regulations, technology, and member behavior continuously create new risks and alter existing risk levels. Therefore, cooperatives should periodically review their risk profile and update mitigation strategies accordingly.

Through systematic identification, measurement, and assessment of risks, cooperatives can improve decision-making, strengthen internal control systems, allocate resources more effectively, and enhance organizational resilience. Ultimately, effective risk assessment provides the foundation for developing appropriate risk mitigation strategies, which are discussed in the following section.

5. Risk Mitigation Strategies

Once risks have been identified and assessed, the next step is to develop appropriate mitigation strategies. Risk mitigation refers to actions taken to reduce either the likelihood that a risk will occur or the severity of its consequences. The objective is not to eliminate all risks, since risk is an inherent part of business activities, but rather to manage risks at an acceptable level while ensuring the achievement of organizational objectives. Effective risk mitigation enables cooperatives to protect member interests, maintain operational stability, and strengthen long-term sustainability (ISO, 2018).

According to ISO 31000:2018, organizations generally adopt four main approaches to risk treatment: risk avoidance, risk reduction, risk sharing, and risk acceptance (ISO, 2018). The selection of an appropriate strategy depends on the nature of the risk, its probability of occurrence, its potential impact, and the organization's capacity to manage the risk.

Risk avoidance involves eliminating activities that expose the cooperative to excessive risk. For example, a cooperative may decide not to enter a business sector that exceeds its managerial capabilities, financial capacity, or technical expertise. Although avoidance can prevent significant losses, it may also limit opportunities for growth and innovation. Therefore, this strategy is generally applied when the potential consequences are considered unacceptable relative to the expected benefits (Hopkin, 2021).

Risk reduction is the most widely applied mitigation strategy in cooperatives. This approach focuses on strengthening internal controls and management practices to reduce the probability or impact of adverse events. Examples include the implementation of standard operating procedures (SOPs), internal audits, segregation of duties, credit limits, inventory controls, and regular financial monitoring. The COSO Enterprise Risk Management Framework emphasizes that effective internal control systems are fundamental for reducing operational and financial risks and improving organizational performance (COSO, 2017). In savings and loan cooperatives, prudent credit analysis, borrower screening, and continuous loan monitoring are important measures for reducing default risk.

Risk sharing involves transferring or distributing part of the risk to other parties. Common examples include insurance, credit guarantee schemes, strategic partnerships, and contractual arrangements with suppliers or buyers. In financial cooperatives, loan insurance and credit guarantee programs can reduce the financial impact of borrower default. Similarly, producer cooperatives often reduce market risk through long-term purchase agreements or partnerships with downstream enterprises. Risk-sharing mechanisms allow cooperatives to reduce potential losses while maintaining business activities (ISO, 2018).

Risk acceptance is appropriate when a risk is assessed as having a relatively low likelihood or limited impact, or when the cost of mitigation exceeds the expected loss. Under this approach, the cooperative consciously accepts the risk while continuing to monitor changes in its likelihood and impact. However, risk acceptance should not be interpreted as ignoring risks; rather, it represents a deliberate management decision based on cost-benefit considerations (Hopkin, 2021).

Beyond these general approaches, cooperatives can strengthen risk mitigation through good governance practices. Governance-related risks can be reduced through transparent decision-making, regular Members' Meetings (RAT), effective supervision by the Supervisory Board, and timely disclosure of financial information. Cornforth (2004) argues that effective governance systems are essential for balancing democratic member control with business efficiency. Strong governance reduces the likelihood of conflicts of interest, weak accountability, and poor decision-making.

Member participation also plays a critical role in mitigating cooperative risks. Because cooperatives are member-owned and democratically controlled organizations, their sustainability depends heavily on active member involvement. Birchall (2011) emphasizes that member loyalty, participation, and commitment are among the most important determinants of cooperative success. Consequently, cooperative education, communication, and member engagement programs should be viewed as important risk mitigation instruments rather than merely organizational activities.

Financial resilience is another important component of risk mitigation. Cooperatives should maintain adequate reserve funds, strengthen internal capital formation, diversify sources of income, and monitor liquidity levels regularly. The creation of reserve funds from annual surpluses (SHU) provides a financial buffer that enables cooperatives to absorb unexpected losses and respond to economic shocks more effectively (International Labour Organization, 2017).

In the digital era, risk mitigation increasingly includes the adoption of technology and information security measures. Digital accounting systems, management information systems, and electronic record-keeping can improve transparency, accuracy, and operational efficiency. At the same time, cooperatives must invest in cybersecurity, data protection, backup systems, and digital literacy to reduce technology-related risks such as cyber fraud, data breaches, and system failures (OECD, 2021).

Effective risk mitigation is not a one-time activity but a continuous process integrated into cooperative governance and management. As business conditions, regulations, technologies, and member expectations evolve, cooperatives must periodically review their risk profile and adjust mitigation strategies accordingly. Through proactive and systematic risk mitigation, cooperatives can enhance organizational resilience, protect member interests, and strengthen their capacity to achieve sustainable growth.

6. Internal Supervision and the Role of the Supervisory Board

Supervision is an essential component of cooperative governance to ensure that organizational activities are conducted in a sound, transparent, and accountable manner. Many cooperatives experience failure due to weak oversight, whether in financial management, decision-making processes, or organizational control.

Within the cooperative structure, the Supervisory Board is responsible for overseeing the policies and management practices implemented by the Board of Directors. Supervisors examine administrative records, financial statements, and the implementation of resolutions adopted at members' meetings, while also providing recommendations for improvement to the management. Cornforth (2004) explains that supervision is a critical element in maintaining a balance between member democracy and professional cooperative management.

In addition to oversight by the Supervisory Board, cooperatives also require internal audits to assess the effectiveness of organizational controls, compliance with standard operating procedures (SOPs), and the financial condition of the cooperative. Internal audits help detect potential irregularities and risks at an early stage, thereby minimizing potential organizational losses.

Within cooperatives, the Annual General Meeting of Members (AGM) also serves as a mechanism of democratic control. The AGM is the highest decision-making forum for evaluating the accountability of both the Board of Directors and the Supervisory Board, establishing organizational policies, and strengthening member participation in cooperative oversight. However, the control function of the AGM becomes weak when member participation is low or when the meeting is conducted merely as a formality.

In addition to internal supervision, cooperatives are also subject to external oversight by the government through guidance, compliance inspections, and cooperative health assessments in accordance with applicable laws and regulations. Such supervision is important for protecting members' interests and maintaining cooperative accountability, particularly for cooperatives that manage public funds.

Thus, both internal and external supervision constitute important components of cooperative risk mitigation, as they strengthen governance, enhance transparency, and safeguard the long-term sustainability of cooperative organizations (Cornforth, 2004; ICA, 2016).

7. Conclusion

Risk management is an integral component of cooperative governance and organizational sustainability. As member-owned enterprises, cooperatives face a broad range of risks arising not only from business and financial activities but also from governance structures, member participation, legal compliance, technological change, and market dynamics. These risks are often interconnected and may significantly affect organizational performance if not managed effectively.

Effective cooperative risk management begins with understanding the nature of risk and identifying its potential sources. Through systematic risk identification, measurement, and assessment, cooperatives can determine risk priorities and allocate resources more effectively. Appropriate mitigation strategies—including risk avoidance, risk reduction, risk sharing, and risk acceptance—help cooperatives minimize potential losses while maintaining operational stability and member confidence.

The success of risk management ultimately depends on the quality of governance and supervision. Strong internal controls, active member participation, effective supervisory functions, transparent reporting, and regular monitoring provide important safeguards against organizational failure. In addition, digitalization, member education, reserve fund formation, and continuous institutional improvement strengthen the cooperative's capacity to respond to emerging challenges.

Therefore, risk management should not be viewed merely as a defensive mechanism for preventing losses. Rather, it is a strategic management tool that enables cooperatives to enhance resilience, strengthen accountability, protect member interests, and achieve sustainable growth in an increasingly complex and dynamic environment.

Discussion Questions

1. Why do cooperatives face risks that differ from those of capital-based firms?
2. What are the main types of risks commonly faced by cooperatives?
3. Why are risk identification and assessment important for cooperative management?
4. Compare risk avoidance, risk reduction, risk sharing, and risk acceptance.
5. How does member participation influence cooperative risk management?
6. What is the role of supervision in strengthening cooperative governance and sustainability?

CHAPTER XII

MODELS FOR MEASURING COOPERATIVE CONTRIBUTIONS TO ECONOMIC DEVELOPMENT

1. Introduction

Cooperatives play an important role in economic development by promoting collective economic activities, strengthening member participation, and improving community welfare. Unlike capital-based enterprises, cooperatives pursue both economic and social objectives by generating value while ensuring that the benefits of economic activities are distributed fairly among members. As member-based enterprises, cooperatives contribute not only to business growth but also to inclusive and sustainable economic development.

The contribution of cooperatives can be observed through various dimensions. Traditionally, their role has been measured by their contribution to Gross Domestic Product (GDP) and Gross Regional Domestic Product (GRDP). However, modern cooperative literature recognizes that cooperatives also contribute to employment creation, market access, income distribution, economic democracy, market stability, and community resilience. Consequently, measuring cooperative contributions requires a broader perspective than conventional economic indicators alone.

This chapter discusses models for measuring cooperative contributions to economic development. It explains the economic outputs generated by different types of cooperatives, methods for measuring their contribution to GDP and GRDP, broader indicators of cooperative performance, and the integration of cooperatives into various sectors of the Indonesian economy.

2. Cooperatives as Productive Economic Enterprises Based on Output Types

Cooperatives are business enterprises established based on the principles of togetherness, member participation, and economic democracy. In practice, cooperatives mobilize members' economic resources to create collective efficiency and enhance the competitiveness of people's enterprises. Unlike purely capital-based companies, cooperatives place people at the center of economic activity (people-centered enterprise) (Birchall, 2011).

From an economic perspective, cooperative outputs can be divided into two main groups, namely cooperatives based on tangible outputs and cooperatives based on intangible outputs.

a. Tangible Output-Based Cooperatives

Tangible output-based cooperatives are cooperatives whose primary activities involve producing, processing, distributing, or trading physical goods. The economic value of this type of cooperative is reflected in the existence of tangible products that can be used, consumed, or traded by the community. Goods-based cooperatives generally play an important role in strengthening production chains, increasing the value added of members' products, and expanding market access for people's enterprises.

1) Producer Cooperatives

Producer cooperatives are cooperatives whose members consist of producers such as farmers, fishers, livestock breeders, artisans, or home industry entrepreneurs. These cooperatives function to assist members in the provision of production inputs, product processing, product quality improvement, and marketing of business outputs. The outputs of producer cooperatives include finished goods as well as semi-finished goods that possess economic value. Examples include dairy cooperatives producing fresh milk, yogurt, and cheese; coffee cooperatives producing ground coffee and packaged coffee; and fisheries cooperatives producing fresh and processed fish products. Through a collective system, producer cooperatives are able to improve production cost efficiency, strengthen members' bargaining positions, and increase value added through product downstreaming processes (Mazzarol & Reboud, 2020).

2) Consumer Cooperatives

Consumer cooperatives are cooperatives aimed at meeting members' consumption needs for goods in a more affordable, stable, and accessible manner. Members of consumer cooperatives generally also serve as the primary users of the cooperative's services.

The goods provided may include staple foods, stationery, fertilizers, seeds, household equipment, and members' business necessities. Examples of consumer cooperatives include employee cooperatives, student cooperatives, and cooperative-owned general stores (waserda). The economic value of consumer cooperatives lies in their ability to shorten distribution chains so that members obtain goods at more efficient prices compared to the general market (Hatta, 2015). In addition, the remaining business surplus can be redistributed to members in the form of Net Surplus (SHU).

3) Marketing Cooperatives

Marketing cooperatives are cooperatives that focus on helping members market their products in order to gain wider market access and more competitive selling prices. These cooperatives act as aggregators of members' products so that sales volumes become larger and bargaining power in the market becomes stronger.

The activities of marketing cooperatives include collecting members' products, sorting and standardizing quality, packaging, promotion, and distribution to consumers or industries. Examples include coffee marketing cooperatives, horticultural marketing cooperatives, and fisheries marketing cooperatives. The presence of marketing cooperatives helps members reduce dependence on middlemen and strengthens their bargaining position within trade chains. As a result, members can obtain fairer prices and more stable incomes.

b. Intangible Output-Based Cooperatives

Intangible output-based cooperatives are cooperatives whose primary activities involve providing services or economic benefits to members in the form of services rather than physical goods. The main value of service cooperatives lies in easier access to services, cost efficiency, and improved member welfare through shared services. This type of cooperative develops across various fields such as finance, transportation, healthcare, education, technology, and other professional services.

1) Savings and Loan Cooperatives (SLCs)

Savings and Loan Cooperatives (SLCs) are cooperatives engaged in providing financial services to members. Their main activities include mobilizing members' savings, extending loans, and supporting members' business capital and consumption needs.

The sources of SLC funds generally come from principal savings, mandatory savings, voluntary savings, and other cooperative capital.

These funds are then lent back to members through mutually agreed mechanisms and interest rates. For example, cooperative members may borrow capital for agricultural businesses, trade, livestock farming, or family educational needs.

The existence of SLCs helps communities obtain easier access to financial services, especially for members who have not been optimally served by formal banking institutions. In addition, cooperative business profits are redistributed to members in the form of Net Surplus (SHU), so that economic benefits are not enjoyed solely by cooperative managers (Sudaryanto & Wijayanti, 2022).

2) Service Cooperatives

Service cooperatives are cooperatives that provide various services according to members' needs. Unlike producer or consumer cooperatives that generate physical goods, service cooperatives emphasize services, skills, or specific activities that provide economic benefits.

The business fields of service cooperatives are highly diverse, for example:

a. transportation cooperatives that provide transport services,
b. healthcare cooperatives that manage clinics or pharmacies,
c. educational cooperatives that organize training programs,
d. information technology cooperatives that provide village internet services or digital services,
e. insurance cooperatives that provide risk protection for members.

Service cooperatives help members obtain services at more affordable costs, with easier access and service quality that is more aligned with shared needs. In addition, service cooperatives also create employment opportunities and increase members' incomes through the collective management of service enterprises.

Based on the form of economic output generated, cooperatives can be classified into goods-based cooperatives and service-based cooperatives. Each type of cooperative has different business characteristics, economic activities, and forms of benefits for members and society. In summary, the differences between cooperative types and their economic outputs can be seen in the following table.

Table 34. Types of Cooperatives and Economic Outputs

No.	Type of Cooperative	Main Activity	Output	Example
1	Producer Cooperative	Production and Processing	Goods	Milk, coffee, processed foods
2	Consumer Cooperative	Distribution and Retail	Goods	Staple foods, fertilizers, production inputs
3	Marketing Cooperative	Product Commercialization	Goods	Sale of members' products
4	Savings and Loan Cooperative	Financial Services	Services	Capital loans, savings
5	Service Cooperative	Service Provision	Services	Transportation, village internet

3. Measuring Cooperative Contributions to GDP and GRDP

In economics, Gross Domestic Product (GDP) and Gross Regional Domestic Product (GRDP) are used to measure the total value of economic activities generated by a country or region within a certain period. GDP is used at the national level, while GRDP is used to measure economic performance at the provincial, regency, or municipal level. Through these indicators, governments can identify economic growth rates, business sector structures, and the contributions of various economic actors, including cooperatives, to development.

The contribution of cooperatives to GDP and GRDP can be observed through various economic activities carried out by cooperatives, such as the production of goods, provision of services, trade distribution, employment generation, and income distribution to members. The greater the economic activity of cooperatives, the greater their contribution to regional economic growth.

In practice, GDP and GRDP are calculated using three main approaches, namely:

a. Expenditure Approach
b. Production Approach
c. Income Approach

The three approaches essentially calculate the same economic activity, but from different perspectives. The expenditure approach views the economy from the perspective of spending or expenditures made by economic actors, the production approach views it from the perspective of value added created through goods and services, while the income approach views it from the perspective of compensation received by factors of production such as wages, interest, rent, and business profits (Mankiw, 2019).

Theoretically, the final results of these three approaches will produce the same aggregate economic value. However, each approach provides different information to help understand the structure and condition of a region's economy more comprehensively.

a. Expenditure Approach

The expenditure approach is a method of calculating GDP or GRDP based on the total expenditures made by all economic actors on final goods and services within a certain period, usually one year. This approach views economic activity from the perspective of income utilization or spending undertaken by households, businesses, government, and the foreign sector.

In this approach, all expenditures that generate demand for goods and services are counted as part of economic activity. The greater the household spending and investment occurring within an economy, the greater the GDP or GRDP value of a region.

The expenditure approach formula is:

$$Y = C + I + G + (X - M)$$

Where:

Y = GDP/GRDP

C = Household consumption

I = Investment

G = Government expenditure

X = Exports

M = Imports

This approach is used to assess purchasing power, investment levels, and the trade position of a region (Case, Fair, & Oster, 2017).

Illustrative Example of the Expenditure Approach

A dairy cooperative in Bandung Regency generates economic activity through household consumption of dairy products amounting to IDR 700 million, investment in milk cooling equipment of IDR 300 million, local government expenditure for a school milk program of IDR 200 million, and product sales outside the region of IDR 150 million. The cooperative also purchases imported supplementary materials valued at IDR 50 million.

Therefore:

$$Y = 700 + 300 + 200 + (150 - 50)$$

$$Y = \text{IDR } 1{,}300 \text{ million}$$

This means that the cooperative's contribution to GRDP through the expenditure approach is IDR 1.3 billion.

b. Production or Value-Added Approach

The production or value-added approach is a method of calculating GDP and GRDP based on the value of goods and services produced through production processes within a region. This approach views economic activity from the perspective of the ability of economic actors to create value added through production, processing, distribution, and service activities.

What is calculated in this approach is not merely total sales or total production value, but the value added created after deducting the cost of raw materials or intermediate inputs used in the production process. Therefore, the production approach is used to determine the real contribution of a sector or business to the economy.

The formula for the production approach is:

$$Y = \sum_{i=1}^{n} (N\,O_i - IA_i)$$

Information:

Y= Total Value Added or GDP/GRDP

NO_i(*Net Output*) = nilai output or total production output

IA_i(*Intermediate Consumption*) = intermediate input costs or raw materials used in the production process

In simple terms, this approach can be understood as:

Value Added = Sales Value − Raw Material Costs

The production approach is very important because it can demonstrate the ability of a business or economic sector to create new economic value. The greater the value added generated, the greater its contribution to regional economic growth.

In the context of cooperatives, this approach can be used to measure the ability of cooperatives to increase the value of members' products through processing, packaging, storage, and marketing activities. For example, coffee farmers who are members of a cooperative may sell raw coffee beans at a low price. However, after the cooperative processes them into packaged ground coffee, their value increases significantly. The difference in value represents the value added calculated under the production approach.

This approach also helps governments identify leading economic sectors within a region. When a cooperative is able to undertake downstream processing and product transformation efficiently, its contribution to regional Gross Regional Domestic Product (GRDP) increases because greater value added is created than would be generated through the sale of raw materials alone.

Illustrative Example of the Production Approach

A coffee cooperative generates annual sales of ground coffee amounting to IDR 2 billion. To produce and market the product, the cooperative purchases coffee beans from members worth IDR 900 million and incurs packaging and distribution costs of IDR 300 million.

Therefore:

$$Y = 2{,}000 - (900 + 300)$$

$$Y = \text{IDR } 800 \text{ million}$$

This means that the cooperative contributes IDR 800 million in value added to the regional Gross Regional Domestic Product (GRDP). The example illustrates how downstream processing and value-added activities can significantly enhance the economic contribution of cooperatives compared to the sale of raw products alone.

c. Income Approach

The income approach is a method of calculating GDP or GRDP based on all income or compensation received by factors of production in the process of economic activities. This approach views economic activity from the perspective of who receives income from the production of goods and services.

In every economic activity, there are parties involved such as workers, capital owners, asset owners, and business managers. Each party receives compensation according to its role in the production process. All such compensation is then summed to calculate GDP or GRDP.

The formula for the income approach ism:

$$Y = w + r + i + p$$

Where:
Y = GDP or GRDP
w (wages) = wages or salaries paid to labor
r (rent) = rental income from land, buildings, or other assets
i (interest) = interest income from capital or loans
p (profit) = business profit or earnings

This approach is used to examine how economic income is distributed among society. In other words, the income approach helps explain who benefits from economic activities and how evenly that income is distributed throughout society.

In the context of cooperatives, the income approach is particularly important because cooperatives are not solely oriented toward business profits but also toward the equitable distribution of members' welfare. For example, cooperatives may provide:

a. wages to cooperative employees,
b. income to members who lease assets or land,
c. interest income or profit-sharing returns to capital providers,
d. Cooperative Surplus (SHU) to cooperative members.

Unlike capitalist enterprises, where business profits are generally concentrated among capital owners, cooperatives distribute profits to members according to their participation in business activities. Therefore, cooperatives are often considered more capable of promoting economic equity and strengthening collective community welfare.

The income approach also helps governments assess the level of welfare within a region. If labor income, business profits, and income distribution increase, the economic condition of the community generally improves as well.

Illustrative Example of the Income Approach

A fish-processing cooperative distributes economic benefits to various stakeholders. It pays IDR 400 million in workers' wages, IDR 100 million in warehouse rent, and IDR 50 million in loan interest. In addition, the cooperative generates a Net Surplus (SHU) of IDR 250 million for its members and organizational development.

Therefore:

$$Y = 400 + 100 + 50 + 250$$

$$Y = \text{IDR } 800 \text{ million}$$

This means that the cooperative's total contribution to GRDP through the income approach amounts to IDR 800 million.

In cooperatives, business profits are redistributed to members through Net Surplus (SHU) allocation, making their impact on economic equity greater than that of conventional enterprises (Birchall, 2011).

4. Model of Cooperatives Integration within the 17 GRDP Sectors

At the regional level, Gross Regional Domestic Product (GRDP) is used to measure economic activities occurring within a province, regency, or municipality. In the Indonesian statistical system, GRDP is divided into 17 economic sectors based on the Indonesian Standard Industrial Classification (KBLI). This sectoral classification is intended to help governments identify which economic sectors are the most developed and contribute the most to regional economies.

Cooperatives possess flexible business characteristics that enable them to operate in nearly all of these economic sectors. Cooperatives are not limited to trade or savings and loan activities but can also develop in agriculture, manufacturing, transportation, information technology, education, healthcare, and other professional services. This demonstrates the significant potential of cooperatives as drivers of the people's economy across various business fields.

The presence of cooperatives in different economic sectors helps increase production, expand employment opportunities, strengthen the distribution of goods and services, and raise community income. Furthermore, cooperatives play a role in strengthening local economies because business profits generally return to members and circulate within the local area.

In general, the relationship between GRDP economic sectors and the types of cooperatives that can develop within them can be seen in the following table.

Table 35. Model of Cooperative Integration within the 17 GDP/ GRDP Sectors

No.	Economic Sector	Suitable Cooperative Type	Dominant Output	Tangible Cooperative Output
1	Agriculture, Forestry, and Fisheries	Producer Cooperatives, Marketing Cooperatives	Goods	Paddy, coffee, fresh milk, fish catches, and sales of members' fertilizers
2	Mining and Quarrying	Producer Cooperatives	Goods	Legal management of community mining activities (e.g., sand, limestone, artisanal gold mining)
3	Manufacturing Industry	Producer Cooperatives	Goods	Downstream products such as handicrafts, processed foods, clothing, textiles, and furniture
4	Electricity and Gas Supply	Service Cooperatives, Producer Cooperatives	Services / Goods	Rural electricity cooperatives, communal biogas supply for members
5	Water Supply, Waste Management, Waste Treatment & Recycling	Service Cooperatives	Services	Village clean water management systems (HIPPAM), cooperative-based waste banks
6	Construction	Service Cooperatives	Services	Small- and medium-scale infrastructure contracting by worker/tradesperson cooperatives
7	Wholesale and Retail Trade; Motor Vehicle and Motorcycle Repair	Consumer Cooperatives, Marketing Cooperatives	Goods	Cooperative minimarkets (Waserda), staple goods provision, agricultural input distribution
8	Transportation and Warehousing	Service Cooperatives	Services	Public transportation services, logistics, and warehouse leasing
9	Accommodation and Food Service Activities	Service Cooperatives, Consumer Cooperatives	Services / Goods	Food court management, cooperative catering services, and tourism homestays
10	Information and Communication	Service Cooperatives	Services	Village internet service providers (local ISPs), IT developer cooperatives, and digital platforms

No.	Economic Sector	Suitable Cooperative Type	Dominant Output	Tangible Cooperative Output
11	Financial and Insurance Services	Savings and Loan Cooperatives (SLCs)	Services	Business capital loans, member savings management, and microinsurance (protection)
12	Real Estate	Service Cooperatives	Services	Residential area management, rental of cooperative-owned buildings or commercial units
13	Business Services (Professional, Scientific, Technical, Agency Services, etc.)	Service Cooperatives	Services	Tax consulting, accounting services, travel agencies, and security services (outsourcing)
14	Public Administration, Defense & Mandatory Social Security	Service Cooperatives, Consumer Cooperatives	Services / Goods	Civil Servant Cooperatives (KPRI) serving the needs of government employees, military personnel, and police officers
15	Education Services	Service Cooperatives	Services	Educational institutions, vocational training centers, or cooperative-based school foundations
16	Health Services and Social Activities	Service Cooperatives	Services	Primary healthcare clinics, cooperative pharmacies, and elderly/social care services
17	Other Services	Service Cooperatives	Services	Artist cooperatives, beauty salon cooperatives, entertainment services, and event organizers

From the table above, it can be seen that cooperatives have opportunities to develop in almost all regional economic sectors. In natural resource-based sectors, cooperatives help members increase production and add value to business outputs. In service sectors, cooperatives help communities obtain services that are more accessible, affordable, and aligned with members' needs.

Thus, cooperatives function not only as ordinary business enterprises but also as instruments of regional economic development capable of strengthening the people's economy, expanding income distribution, and creating more inclusive and equitable economic growth (ICA, 2020).

5. Measuring Cooperative Contributions Beyond GDP and GRDP

The contribution of cooperatives is not measured solely through their contribution to Gross Domestic Product (GDP) or Gross Regional Domestic Product (GRDP), but can also be assessed through various economic, social, institutional, equity, and community economic stability dimensions. In modern cooperative literature, cooperatives are viewed not merely as business enterprises but as instruments of economic development capable of strengthening the structure of the people's economy, reducing inequality, expanding economic participation, and improving members' welfare collectively (Birchall, 2011; ICA, 2020).

The perception that cooperatives are unable to promote economic growth generally arises because cooperatives are often viewed as small social-based enterprises. In practice, however, cooperatives are capable of creating economic value added, expanding markets, increasing member productivity, strengthening local investment, creating employment opportunities, and developing downstream industries for people-based enterprises. Therefore, the contribution of cooperatives to economic development can be measured through various multidimensional indicators that reflect both their economic and social impacts more comprehensively (Todaro & Smith, 2020).

One way to measure cooperative contributions is through their ability to promote economic growth. Such contributions can be observed through increases in the production of goods and services, growth in members' business turnover, increased investment, job creation, improved productivity, and growth in regional economic value added. Cooperatives can also become drivers of local economies through collective business development, downstream processing of members' products, distribution efficiency, and strengthening local supply chains. For example, a coffee cooperative that previously sold only raw coffee beans may increase business turnover after establishing a packaged ground coffee processing unit and implementing digital marketing. This condition increases member farmers' incomes, expands employment opportunities, and enhances regional economic value added (Birchall & Ketilson, 2009).

The contribution of cooperatives can also be measured based on their market share within specific sectors, such as dairy cooperatives, agricultural cooperatives, retail cooperatives, and savings and loan cooperatives. The larger the cooperative's market share, the greater its ability to influence prices, distribution systems, and members' bargaining positions within the market. For example, a dairy cooperative that absorbs most of the milk production of local farmers can strengthen farmers' bargaining positions when negotiating with dairy processing industries, resulting in better selling prices and increased member income (Birchall, 2011).

In addition, cooperatives make important contributions to correcting market failures, such as reducing dependence on middlemen, expanding access to capital, lowering transaction costs, and strengthening members' market access. The presence of cooperatives often provides solutions when market mechanisms fail to serve small communities fairly and efficiently. For example, a fisheries cooperative managing a Fishermen Fuel Supply Station (SPBUN) can provide subsidized diesel fuel at lower prices and with more stable supply than purchases through informal retailers. This helps reduce fishing operational costs and improve business efficiency for fishers (Hansmann, 1996).

The contribution of cooperatives can also be measured through their ability to promote economic equity and fairness. Unlike capitalist enterprises that tend to concentrate profits among capital owners, cooperatives distribute economic benefits to members through business participation mechanisms and Net Surplus (SHU) distribution. For example, consumer cooperatives allocate a portion of Net Surplus (SHU) to members based on the volume of their transactions rather than the amount of capital they own. As a result, members who actively participate in cooperative activities continue to receive economic benefits even when their capital contributions are relatively small (Birchall, 2004).

From an institutional perspective, cooperatives also contribute to strengthening economic democracy and public participation. This contribution can be measured through member participation rates in General Membership Meetings, member involvement in cooperative oversight, transparency of business management, and the culture of deliberation in decision-making. For example, every cooperative member has equal voting rights regardless of the amount of capital owned, ensuring that decision-making processes are more democratic and participatory (Cornforth, 2004).

Furthermore, cooperatives play an important role in strengthening community socio-economic resilience. This contribution can be observed through their ability to create jobs, help members withstand economic crises, maintain the stability of members' businesses, and strengthen socio-economic solidarity. For example, when agricultural commodity prices decline during peak harvest seasons, cooperatives may continue purchasing members' produce at predetermined prices to protect farmers' incomes and reduce losses resulting from falling market prices (Birchall & Ketilson, 2009).

Cooperatives can also be assessed based on the quality of their institutional performance, such as organizational governance, financial reporting transparency, membership growth, business volume, and organizational sustainability. Cooperatives that are managed professionally and transparently generally enjoy higher levels of member trust, enabling greater member participation and sustainable business expansion.

In addition to promoting growth and economic equity, cooperatives also make important contributions to maintaining price stability and supporting government economic policies. In practice, cooperatives frequently serve as government partners in distributing essential goods, implementing market operations, purchasing agricultural products, and distributing subsidized goods more effectively. Their role in economic distribution helps shorten supply chains, maintain product availability, and stabilize prices for both producers and consumers.

For example, consumer cooperatives may implement low-cost rice market operations in accordance with the Highest Retail Price (HET) when food prices rise before major religious holidays. Through village cooperative networks, communities gain access to essential goods at more stable and affordable prices. In the agricultural sector, cooperatives can also help maintain the Government Purchase Price (HPP) by purchasing farmers' paddy when prices decline during peak harvest periods. The paddy can then be stored or marketed gradually, helping maintain farm-gate prices and stabilize food supplies. Meanwhile, in the energy sector, fisheries cooperatives managing Fisheries Fuel Supply Station (SPBUN) facilities help the government distribute subsidized diesel fuel through membership card systems and digitalized transaction mechanisms, ensuring that subsidies are better targeted and reducing misuse of subsidized energy distribution.

Therefore, measuring cooperative contributions cannot be based solely on business profits or contributions to GDP and GRDP. It must also consider their contributions to generating economic growth, strengthening equity, correcting market failures, maintaining price stability, reinforcing economic democracy, and building sustainable socio-economic resilience within society.

6. Conclusion

Cooperatives are one of the important pillars of national and regional economic development because they are able to integrate the economic strength of communities through the principles of togetherness, member participation, and economic democracy. As member-based business enterprises, cooperatives are not only oriented toward business profits but also toward improving member welfare, ensuring a more equitable distribution of economic benefits, and strengthening the socio-economic resilience of communities.

In practice, cooperatives can develop in various business fields, both those that produce goods and those that provide services. Producer cooperatives, consumer cooperatives, marketing cooperatives, savings and loan cooperatives, and service cooperatives each have different yet complementary roles in strengthening the people's economy. Through production activities, distribution, service provision, product processing, and the strengthening of market access, cooperatives are able to create economic value added that contributes to regional growth and improved member welfare.

The contribution of cooperatives to economic development can be measured through various approaches. In addition to their contribution to GDP and GRDP through the expenditure, production, and income approaches, cooperatives can also be assessed based on their contribution to economic growth, market share, income distribution, market failure correction, price stability, economic democracy, socio-economic resilience, and institutional quality. This multidimensional approach demonstrates that cooperatives are not merely ordinary business enterprises but also instruments of economic development with social, distributive, and economic stabilization functions.

Cooperatives also possess the flexibility to develop in nearly all economic sectors, ranging from agriculture, fisheries, manufacturing, trade, transportation, information technology, and financial services to education and healthcare. In practice, cooperatives frequently serve as government partners in maintaining price stability and distributing essential goods through market operations, purchasing agricultural products in accordance with the Government Purchase Price (HPP), and distributing subsidized goods more effectively. This demonstrates that cooperatives play a strategic role in maintaining community economic stability while strengthening regional economic resilience.

Therefore, strengthening cooperatives is essential for promoting inclusive, equitable, and sustainable economic development. If managed professionally, transparently, adaptively, and based on members' needs, cooperatives have significant potential to become key drivers of the people's economy, strengthen the national economic structure, and serve as important instruments in achieving more equitable and resilient economic growth in the future.

Discussion Questions

1. A cooperative records household consumption of IDR 500 million, investment of IDR 200 million, government expenditure of IDR 100 million, exports of IDR 80 million, and imports of IDR 30 million. Calculate the cooperative's contribution to GRDP using the expenditure approach.
2. A coffee cooperative generates sales of IDR 1.5 billion and incurs intermediate input costs of IDR 900 million. Calculate the value added created by the cooperative using the production approach.
3. A cooperative pays wages of IDR 300 million, rent of IDR 50 million, interest of IDR 25 million, and generates Net Surplus (SHU) of IDR 125 million. Calculate its contribution to GRDP using the income approach.
4. A dairy cooperative purchases 6 million liters of milk from local farmers, while total milk production in the region is 10 million liters. Calculate the cooperative's market share.
5. A consumer cooperative distributes IDR 120 million of Net Surplus (SHU) to 600 active members. Calculate the average SHU received per member.

CHAPTER XIII

BUILDING A SUSTAINABLE COOPERATIVE ECOSYSTEM: BALANCING STATE SUPPORT, MARKET DYNAMICS, AND MEMBER PARTICIPATION

1. Introduction

Cooperatives have long been recognized as important institutions for improving the welfare of communities through collective economic action. By working together within a cooperative, individuals can gain better access to markets, capital, technology, and business opportunities than they could achieve on their own. For this reason, cooperatives have become important instruments for promoting economic inclusion, reducing inequality, and strengthening local economic development (Birchall, 2011).

The development of cooperatives, however, does not occur automatically. Successful cooperatives require supportive conditions that enable them to grow and remain sustainable over time. These conditions include effective leadership, active member participation, access to finance, supportive regulations, adequate infrastructure, and market opportunities. Without such support, many cooperatives struggle to survive even when they are established with strong initial enthusiasm.

Different countries have adopted different approaches to creating these conditions. In some countries, cooperatives develop primarily through community initiatives and market mechanisms. In others, governments play a more active role by providing regulations, financing, infrastructure, education, and technical assistance. As a result, the relationship between the state, the market, and cooperatives has become an important topic in cooperative development.

Experience from around the world shows that neither government support nor market mechanisms alone are sufficient to ensure cooperative success. Cooperatives are more likely to thrive when state support, market opportunities, and member participation complement one another. This interaction forms what is often called a cooperative ecosystem, namely the network of institutions, policies, resources, and stakeholders that influence cooperative development.

This chapter discusses different schools of cooperative thought, the role of the state in cooperative development, the concept of the cooperative ecosystem, and lessons from Indonesia's experience. The chapter argues that sustainable cooperative development depends on achieving an appropriate balance between state support, market dynamics, and active member participation.

2. Schools of Cooperative Thought

The development of cooperatives in different countries has given rise to various concepts and schools of cooperative thought shaped by each country's social, political, economic, and ideological conditions. Historically, the modern cooperative movement is often associated with the establishment of The Rochdale Society of Equitable Pioneers in Rochdale, England, in 1844. This group is regarded as the pioneer of the modern cooperative movement because it successfully formulated cooperative principles that later became the foundation of cooperative development worldwide, such as voluntary membership, democratic management, surplus distribution based on member participation, and cooperative education (Cole, 1944).

Over time, scholars have classified cooperatives into several schools or streams of thought. Generally, cooperative schools are categorized into the Western cooperative model, the socialist cooperative model, and several other approaches that developed according to the characteristics of each country and its economic system.

a. The Western School of Cooperative Thought

The Western School of Cooperative Thought developed in Western European countries and in nations adopting market-based economic systems. Within this school of thought, cooperatives are viewed as private organizations voluntarily established by individuals to fulfill their common economic interests. Cooperatives emerge from members' needs to improve their welfare through independent and democratic economic cooperation.

Hans H. Münkner explains that, within the Western School of Cooperative Thought, cooperatives are private organizations voluntarily established by individuals for self-help and mutual benefit among members. Individual, family, or group interests constitute the primary driving forces behind cooperative formation. Therefore, cooperatives within this school of thought are positioned as part of the private sector rather than as components of state organizations (Münkner, 1983).

Within this framework, governments generally function only as regulators and facilitators, while cooperatives are owned, controlled, and managed independently by their members. The main principles emphasized include:

1) voluntary membership,
2) economic democracy,
3) cooperative autonomy,
4) member participation,
5) and service to members' needs.

This cooperative model has developed strongly in countries such as England, Germany, the Netherlands, Denmark, Canada, and the United States.

b. The Socialist School of Cooperative Thought

The Socialist School of Cooperative Thought developed in countries implementing socialist or centrally planned economic systems. Within this school of thought, cooperatives are not viewed solely as private member-owned organizations but rather as instruments of the state for implementing national economic development policies.

According to Wahju Sukotjo, within the Socialist School of Cooperative Thought, cooperatives are organizations planned and controlled by the government to rationalize production and support the implementation of national economic plans. Cooperatives become part of a broader state administrative system and function as instruments for economic policy implementation, supervision, and public education (Sukotjo, 1980).

Within this school of thought, state interests and national socio-political objectives are prioritized over the interests of individual members. Cooperatives are also utilized as instruments for promoting collective ownership of the means of production. Consequently, the role of the state in the establishment, management, and supervision of cooperatives becomes highly dominant.

The socialist cooperative model was historically developed in the Soviet Union, China, Cuba, Vietnam, and several Eastern European countries.

c. The Commonwealth School of Cooperative Thought

The Commonwealth School of Cooperative Thought developed in member countries of the British Commonwealth, particularly in developing countries that were formerly British colonies. Within this school of thought, cooperatives are viewed as instruments for rural economic development and as mechanisms for modernizing local economies and improving community welfare.

The government plays a significant role in cooperative development, particularly through regulation, education, capital support, technical assistance, and supervision. Nevertheless, cooperatives remain member-based economic organizations that uphold democratic principles, self-help, and community participation.

This school of thought developed prominently in India, Malaysia, Sri Lanka, and several African countries. It represents a middle path between the Western model, which emphasizes cooperative autonomy, and the Socialist model, which places cooperatives under strong state control.

d. The Yardstick School of Cooperative Thought

The Yardstick School of Cooperative Thought views cooperatives as instruments for promoting healthy competition within a market economy. Within this school of thought, cooperatives function as a "yardstick" or benchmark against investor-owned enterprises, encouraging markets to become more efficient, competitive, and equitable.

The presence of cooperatives is expected to:

1. Reduce monopolistic and oligopolistic practices;
2. Improve market efficiency and price fairness;
3. Strengthen the bargaining power of small producers; and
4. Protect consumers from market exploitation.

This school of thought developed extensively in Scandinavian countries and North America, particularly through agricultural and consumer cooperatives. By providing an alternative organizational model, cooperatives serve as a competitive benchmark that encourages conventional firms to operate more efficiently and fairly.

e. The Third World School of Cooperative Thought

The Third World School of Cooperative Thought developed in developing countries facing challenges such as poverty, economic inequality, and limited access to capital among low-income communities. Within this school of thought, cooperatives are regarded as instruments for economic empowerment and socio-economic development.

Cooperatives function not only as business enterprises but also as:

1. Instruments for poverty alleviation;
2. Means of economic education;
3. Mechanisms for strengthening social solidarity; and
4. Tools for local economic development.

This school of thought developed widely across Asia, Africa, and Latin America, including Indonesia. It emphasizes the role of cooperatives as vehicles for community development, social inclusion, and the improvement of livelihoods among economically disadvantaged groups.

f. The Nîmes School of Cooperative Thought

The Nîmes School of Cooperative Thought developed in France and was influenced by ideas of social solidarity and socio-economic reform. This school of thought emphasizes the role of cooperatives as instruments of social transformation and the creation of a more equitable economic order.

Within this school of thought, cooperatives are viewed not merely as economic enterprises but also as social and moral movements aimed at improving public welfare. Cooperatives are expected to contribute to a more humane economic system based on the principles of solidarity, justice, and cooperation.

This school of thought significantly influenced the development of consumer cooperatives and worker cooperatives throughout Western Europe.

In general, the differences among the various schools of cooperative thought primarily concern:

1. The position of cooperatives in relation to the state;
2. The degree of government intervention;
3. The orientation toward members' interests; and
4. The socio-economic objectives of cooperatives.

The Western School of Cooperative Thought places greater emphasis on member autonomy and market mechanisms, whereas the Socialist School of Cooperative Thought emphasizes the role of the state and collective national interests. Meanwhile, the other schools of thought emerged as adaptations to the economic development needs and social conditions of their respective countries.

3. The Role of the State in Encouraging Cooperative Development in Developed Countries

The development of cooperatives in developed countries demonstrates that the successful transformation of cooperatives from solidarity-based organizations into modern business enterprises cannot be separated from the role of the state in building a strong and consistent institutional ecosystem. Reports from the International Cooperative Alliance (ICA) affirm that cooperatives have become an integral part of national economic systems in many developed countries, contributing significantly to Gross Domestic Product (GDP) and employment generation. This reflects the success of governments in creating environments that enable cooperatives to grow competitively without losing their identity as member-based organizations.

In various publications such as the World Cooperative Monitor, the ICA notes that large cooperatives in developed countries have achieved business scales capable of competing with multinational corporations. This success did not emerge naturally, but was supported by state policies ensuring legal certainty, protection of cooperative principles, and regulations adaptable to market dynamics. Governments play roles in establishing clear legal frameworks regarding collective ownership, democratic governance, and the distribution of economic benefits, thereby providing cooperatives with strong and reliable operational foundations.

Furthermore, governments in developed countries also function as providers of institutional infrastructure supporting cooperative efficiency, including inclusive financial systems, access to capital markets, and support for innovation and digitalization. Strategic sectors such as financial cooperatives (credit unions and cooperative banks), agricultural cooperatives, retail cooperatives, and energy cooperatives have grown rapidly due to the combination of market discipline and appropriate public policy support. In this regard, the state does not act as a business operator, but rather as a system stabilizer and creator of a level playing field.

Moreover, the role of the state is also reflected in strengthening cooperative supervision and accountability systems. Strict yet proportional regulations ensure that cooperatives remain professional in management, transparent in reporting, and accountable to their members. This has increased public trust in cooperatives as credible business enterprises. At the same time, governments have encouraged the integration of cooperatives into broader economic networks through federations, consortiums, and cross-sector partnerships

ICA findings indicate that the success of cooperatives in developed countries is largely determined by the combination of high-quality internal governance and supportive public policy design. In other words, the state plays a strategic role as the architect of an ecosystem that enables cooperatives to develop independently, innovatively, and sustainably. In this context, cooperatives are no longer positioned merely as alternatives for marginalized groups, but rather as modern business models capable of competing globally and serving as one of the key pillars of an inclusive economic system.

4. Cooperatives from the Perspective of the Development Ecosystem

The concept of an ecosystem originally emerged in ecological sciences to describe a system of interconnected organisms and their environment. In development studies, the term ecosystem is used to describe a network of actors, institutions, resources, and relationships that interact and collectively influence development outcomes. A development ecosystem therefore refers to an integrated system in which governments, markets, communities, financial institutions, educational institutions, and other stakeholders interact to create conditions that support economic and social development (Isenberg, 2010; Stam, 2015).

Within this perspective, cooperatives should not be viewed as isolated business organizations. Their performance and sustainability depend not only on internal management and member participation but also on the broader ecosystem in which they operate. Access to finance, technology, infrastructure, markets, education, and supportive public policies significantly affects the ability of cooperatives to grow and compete. Consequently, cooperative development is closely linked to the quality of the surrounding institutional environment (Bijman et al., 2012).

From the perspective of institutional economics, cooperatives emerge as organizational responses to market imperfections such as high transaction costs, information asymmetry, unequal bargaining power, and limited access to productive resources. Coase (1937) argues that organizations develop to reduce transaction costs that arise through market exchanges, while Williamson (1985) emphasizes the importance of governance structures in improving economic coordination. In this context, cooperatives provide collective mechanisms that enable small economic actors to achieve efficiencies and market access that would be difficult to obtain individually.

The cooperative development ecosystem consists of several interconnected actors. Members represent the foundation of the cooperative because they provide participation, capital, economic transactions, and democratic control. Markets create opportunities for production, trade, and service delivery while simultaneously generating competitive pressures. Financial institutions provide funding and financial services that support cooperative growth and investment. Educational and research institutions contribute knowledge, innovation, and capacity building. Technology providers facilitate digital transformation, operational efficiency, and access to information. Civil society organizations strengthen social capital, community engagement, and local development initiatives.

Within this ecosystem, cooperatives create value not only through economic activities but also through broader social and institutional contributions. Cooperatives strengthen economic inclusion, improve market access for small producers, facilitate collective action, and build social capital among members and communities (Ostrom, 1990; Schmitz, 1995). These functions make cooperatives important instruments for promoting inclusive and sustainable development.

The success of cooperatives therefore depends on the effectiveness of interactions among actors within the ecosystem. A supportive ecosystem enables cooperatives to expand their economic activities, improve member welfare, and contribute more significantly to economic development. Conversely, weak institutions, limited market access, inadequate infrastructure, and insufficient support services may constrain cooperative performance and sustainability.

Among all actors within the cooperative ecosystem, the state plays a particularly important role because it influences many of the institutional conditions that determine cooperative development. The following section discusses the strategic role of the state in creating and maintaining an enabling environment for cooperative growth and sustainability.

5. The Strategic Role of the State in the Cooperative Ecosystem

As discussed in the previous section, cooperatives operate within a broader development ecosystem consisting of interconnected economic, social, and institutional actors. Among these actors, the state occupies a unique position because it has the authority to establish rules, allocate resources, coordinate development programs, and create conditions that influence the performance of all other actors within the ecosystem. Consequently, the success of cooperative development is closely associated with the quality of state policies and institutional support.

In modern development theory, the role of the state has evolved from direct control of economic activities toward the creation of an enabling environment that supports economic participation, innovation, and organizational development. Within the cooperative ecosystem, the state functions not merely as a regulator but also as a facilitator, capacity builder, infrastructure provider, and partnership catalyst (World Bank, 1997; Mazzucato, 2013).

First, the state acts as a regulator by providing legal certainty and protecting the identity of cooperatives as member-owned and democratically controlled organizations. A clear regulatory framework is essential to ensure that cooperative principles such as collective ownership, democratic governance, and member-oriented benefit distribution are consistently implemented. Hansmann (1996) argues that organizational performance is strongly influenced by the allocation of ownership rights and governance structures established through institutional arrangements.

Second, the state functions as a facilitator of access to finance. Limited access to capital is one of the most common constraints faced by cooperatives, particularly during their early stages of development and business expansion. Through subsidized credit programs, credit guarantees, cooperative financial institutions, and development funds, governments can help cooperatives overcome financing barriers and strengthen their investment capacity (Sexton & Iskow, 1988).

Third, the state serves as a capacity builder by supporting education, training, technical assistance, and organizational development. Nilsson (2001) notes that weaknesses in governance and management are among the most significant factors affecting cooperative performance. Therefore, continuous investment in human resource development is essential for improving cooperative competitiveness and sustainability.

Fourth, the state acts as a provider of infrastructure and public goods. Transportation networks, communication systems, logistics facilities, digital infrastructure, and market information systems reduce transaction costs and improve operational efficiency. In the digital era, support for cooperative digitalization has become increasingly important for expanding market access, strengthening transparency, and improving service delivery (Mazzarol et al., 2014).

Fifth, the state functions as a catalyst for partnerships by connecting cooperatives with private enterprises, financial institutions, research organizations, and international markets. Such partnerships help cooperatives increase business scale, strengthen value chain integration, improve market access, and enhance member incomes (Markelova et al., 2009).

The role of the state in the cooperative ecosystem has evolved over time. Earlier state-led approaches often relied on direct intervention and administrative control, which sometimes weakened member participation and organizational autonomy (Cook, 1995; Chaddad & Cook, 2004). Contemporary approaches increasingly emphasize a balanced model in which the state creates enabling conditions while preserving cooperative independence and democratic governance. The International Cooperative Alliance (ICA, 2021) recognizes this ecosystem-based approach as an important direction for cooperative development in the twenty-first century.

Therefore, the strategic role of the state should not be understood solely in terms of regulation or financial support. Rather, the state acts as an ecosystem architect that helps create the institutional conditions necessary for cooperatives to grow, innovate, and contribute effectively to inclusive and sustainable economic development.

6. Lessons from Indonesia's State-Led Cooperative Development

State-led cooperative development refers to an approach in which the government plays an active role in initiating, facilitating, and accelerating cooperative development through public policies, regulatory support, financing programs, infrastructure provision, technical assistance, and institutional coordination. Under this approach, cooperatives are not expected to emerge solely through spontaneous community initiatives or market mechanisms, but are deliberately promoted as instruments of economic development, poverty reduction, agricultural modernization, and social inclusion (Hanel, 1989; Cook, 1995; Birchall, 2011). The state acts as an enabler and ecosystem builder, while cooperatives remain economic organizations that ultimately must generate value for their members.

Indonesia provides one of the most significant examples of state-led cooperative development in the developing world. For decades, cooperatives have been utilized as instruments of rural development, agricultural modernization, poverty reduction, and community economic empowerment. The Indonesian experience demonstrates how active state intervention can accelerate cooperative formation and strengthen economic participation, while also illustrating the importance of maintaining cooperative autonomy and member participation for long-term sustainability (Cook, 1995; ILO, 2022).

One of the earliest and most prominent examples was the development of Koperasi Unit Desa (KUD). The initiative began with pilot projects and institutional preparation programs in 1971 and was subsequently expanded nationwide from 1973 as part of Indonesia's rural development and agricultural modernization strategy. Through this state-led approach, the government actively promoted cooperative formation and provided extensive support through regulations, financing programs, technical assistance, agricultural input distribution, marketing facilitation, and organizational guidance (Hanel, 1989; Hill, 1996). KUD were established as multipurpose village cooperatives intended to support agricultural production, facilitate rural trade, expand access to credit, and strengthen local economic development.

The KUD program expanded rapidly throughout Indonesia and eventually reached more than 9,000 village cooperatives. KUD played an important role in distributing agricultural inputs, facilitating farmers' access to production credit, supporting agricultural marketing systems, and strengthening rural economic institutions. Their contribution extended beyond cooperative development itself and became part of Indonesia's broader agricultural transformation. KUD were among the institutional mechanisms supporting Indonesia's achievement of rice self-sufficiency, which received international recognition from the Food and Agriculture Organization (FAO) in 1984 (Booth, 1998; Hill, 1996).

From a development policy perspective, KUD represented a classic example of state-led cooperative development. Rather than relying solely on spontaneous community initiatives, the government deliberately accelerated cooperative formation through public policy, administrative coordination, and institutional support. Cooperatives were integrated into national development programs and served as channels for agricultural development, input distribution, rural financing, and community economic empowerment. This approach enabled the rapid establishment of a nationwide cooperative network that would have been difficult to achieve through purely organic development processes (Cook, 1995; Chaddad & Cook, 2004).

Following Indonesia's political and economic reforms in 1998, direct government intervention in KUD operations gradually declined. Cooperatives were increasingly expected to compete and survive under normal market conditions with more limited government support. Although some KUD experienced organizational decline, many others successfully adapted and continue to operate today. This experience demonstrates that government intervention can accelerate cooperative formation, but long-term sustainability ultimately depends on the cooperative's ability to generate economic value for members, maintain participation, strengthen governance, and adapt to changing market conditions (Birchall, 2011; Cook, 1995).

These lessons are highly relevant to the current Koperasi Desa/Kelurahan Merah Putih (KDKMP) initiative launched by the Government of Indonesia in 2025. Similar to the KUD program, KDKMP represents a large-scale state-led effort to accelerate cooperative development throughout the country. According to the Ministry of Cooperatives, by the end of April 2026 a total of 83,363 KDKMP had been established nationwide (Ministry of Cooperatives, 2026).

Compared with earlier cooperative development programs, KDKMP reflects a broader ecosystem-based approach. Government support extends beyond institutional formation and includes regulatory facilitation, financing schemes, technical assistance, infrastructure development, and digital integration. Through Presidential Instruction No. 9 of 2025 and Presidential Instruction No. 17 of 2025, the government has mobilized ministries, local governments, state-owned enterprises, and financial institutions to support cooperative development. Support includes the construction of cooperative facilities such as retail outlets, warehouses, cold storage facilities, and operational infrastructure. The government has also encouraged the provision of trucks, transport vehicles, and three-wheeled motorcycles to support cooperative logistics and business operations. In addition, supportive fiscal policies have enabled state-owned banks to provide financing facilities backed by public policy mechanisms and village-fund-related fiscal support, thereby improving cooperative access to capital for business development and infrastructure investment (Government of Indonesia, 2025; Ministry of Cooperatives, 2026).

These interventions illustrate the evolving role of the state as an ecosystem architect rather than merely a regulator. The state is not only creating cooperatives but also attempting to establish the institutional, financial, and physical infrastructure required for cooperative growth and competitiveness (Mazzucato, 2013; ICA, 2021).

Nevertheless, Indonesia's historical experience suggests that the long-term success of KDKMP should not be measured solely by the number of cooperatives established, the amount of financing distributed, or the scale of infrastructure provided. More importantly, success depends on whether cooperatives are able to generate sustainable economic benefits for members, strengthen local economic activities, maintain active member participation, and develop professionally managed business operations. The experience of KUD demonstrates that institutional formation is only the first stage of cooperative development. The greater challenge lies in ensuring that cooperatives remain economically relevant and organizationally sustainable over time.

Ultimately, Indonesia's experience demonstrates that state-led cooperative development can be highly effective in accelerating institutional formation, reducing barriers to collective action, and building an enabling ecosystem for cooperative growth. However, sustainable cooperative development requires a balance between state support, market mechanisms, and member participation. The state can initiate, facilitate, and strengthen cooperative development, but it cannot substitute for the economic role of cooperatives themselves. In the long run, cooperatives survive and prosper because they create value for members, maintain democratic governance, strengthen institutional capacity, and continuously adapt to changing economic conditions (Cook, 1995; Birchall, 2011; North, 1990)

7. Conclusion

The development of cooperatives is strongly influenced by the interaction between state support, market dynamics, and member participation. Different schools of cooperative thought demonstrate that there is no single model of cooperative development that applies universally. Some countries emphasize cooperative autonomy and market mechanisms, while others rely more heavily on state intervention to accelerate cooperative formation and economic development.

The concept of a cooperative ecosystem highlights that cooperatives do not operate in isolation. Their sustainability depends on the quality of the institutional environment, including regulations, access to finance, infrastructure, education, technology, and market opportunities. Within this ecosystem, the state plays an important role as a regulator, facilitator, capacity builder, infrastructure provider, and partnership catalyst.

Indonesia's experience with KUD and KDKMP demonstrates that a state-led approach can effectively accelerate cooperative development and expand economic participation. However, long-term sustainability cannot be achieved through government support alone. Ultimately, cooperatives survive and prosper when they generate tangible economic benefits for members, maintain democratic participation, strengthen governance, and adapt to changing economic conditions.

Therefore, sustainable cooperative development requires a balanced ecosystem in which the state creates enabling conditions, markets provide economic opportunities, and members actively participate in shaping and sustaining their cooperative organizations.

Discussion Questions

1. What is meant by a cooperative ecosystem?
2. Why is member participation important for cooperative sustainability?
3. How can the state support cooperatives without reducing their autonomy?

4. What are the strengths and weaknesses of a state-led cooperative development approach?
5. What lessons can be learned from Indonesia's KUD and KDKMP experiences?
6. Why is economic value creation important for cooperative survival?

CHAPTER XIV

COOPERATIVES IN THE MODERN ECONOMY: REFLECTIONS, CHALLENGES, AND THE FUTURE

1. Introduction

For many years, cooperatives have often been viewed primarily as social movements, instruments of economic democracy, or expressions of solidarity-based economic organization. While these perspectives capture important aspects of the cooperative identity, they do not fully explain how cooperatives function in contemporary market economies. In reality, cooperatives are enterprises that operate within markets, compete with other firms, manage resources, coordinate economic activities, and respond to changing technological and institutional environments.

Throughout this book, cooperatives have been examined through the lenses of Institutional Economics and the theory of the firm. This perspective positions cooperatives not merely as normative organizations founded on values and principles, but as member-based enterprises with distinct institutional arrangements. Their uniqueness lies in the way ownership, control, participation, and benefit distribution are organized around members rather than capital investors.

The preceding chapters have explored cooperative identity, forms and classifications, membership structures, member value creation, capitalization, collective efficiency, cooperative effects, governance systems, risk management, contributions to economic development, and the role of cooperatives within broader development ecosystems. Taken together, these discussions demonstrate that cooperatives remain highly relevant in modern economies, while also facing significant challenges that require institutional adaptation and organizational innovation.

This concluding chapter synthesizes the key lessons of the book, reflects on the opportunities and limitations of the cooperative model, and discusses the future prospects of cooperatives in an increasingly digital, competitive, and globally interconnected economy.

2. Key Lessons from Cooperatives as Member-Based Enterprises

One of the most important conclusions emerging from this book is that cooperatives should be understood as member-based enterprises operating within market economies. Cooperatives are not anti-market organizations, nor are they merely social institutions. Rather, they are enterprises established to meet the common economic needs of members through collective ownership, democratic control, and active economic participation.

Unlike Capital-Based Enterprises (CBEs), which prioritize returns on invested capital, cooperatives place members at the center of economic activities. This distinction influences organizational objectives, governance mechanisms, performance indicators, and benefit distribution systems. While CBEs seek to maximize shareholder value, cooperatives seek to maximize member value through services, market access, economic participation, and equitable benefit distribution.

The discussions throughout this book further demonstrate that cooperatives function as mechanisms of collective economic coordination. Through aggregation, collective action, economies of scale, economies of scope, and economies of coordination, cooperatives enable members to achieve efficiencies and economic opportunities that would be difficult to obtain individually. Cooperatives therefore serve not only as business organizations but also as institutional arrangements that reduce transaction costs and strengthen economic resilience.

Another important lesson concerns the role of cooperatives in addressing market imperfections. Small producers, consumers, and micro-enterprises often face unequal bargaining positions, limited access to finance, and weak market power. Cooperatives help overcome these constraints by organizing economic activities collectively and creating institutional mechanisms that enhance market participation.

Finally, the sustainability of cooperatives depends fundamentally on member participation. Cooperative success is not determined solely by capital accumulation or asset growth, but by the extent to which members actively utilize cooperative services, participate in governance, and maintain commitment to collective objectives. In this sense, participation remains both the foundation and the driving force of cooperative sustainability.

3. Dual Identity and Institutional Consequences

The defining characteristic of cooperatives is the concept of dual identity, whereby members simultaneously act as owners and users of the enterprise. This institutional arrangement distinguishes cooperatives from Capital-Based Enterprises (CBEs), where ownership and service utilization are generally separated.

Dual identity provides significant advantages. It creates a direct relationship between economic participation and benefit distribution, strengthens member loyalty, and establishes a relatively stable internal market. Members contribute to the cooperative not only as investors but also as active participants in economic transactions.

However, dual identity also generates institutional challenges. The free-rider problem, horizon problem, portfolio problem, control problem, and influence cost problem arise because ownership rights are shared among a large number of members with different interests and levels of participation. These challenges may weaken governance, reduce accountability, and undermine organizational performance if not managed effectively.

Consequently, successful cooperatives must continuously strengthen member education, participation mechanisms, governance systems, and organizational discipline. The sustainability of cooperatives ultimately depends on their ability to align member interests with organizational objectives.

4. Trade-offs between Cooperatives and Capital-Based Enterprises (CBEs)

A central theme throughout this book is that no organizational form is universally superior. Cooperatives and Capital-Based Enterprises (CBEs) each possess distinctive strengths and limitations.

Cooperatives excel in creating member value, promoting equitable benefit distribution, strengthening bargaining power, stabilizing markets, and supporting small-scale economic actors. Their democratic governance structures provide opportunities for broader participation and collective decision-making.

At the same time, cooperatives often face constraints related to capital mobilization, managerial professionalization, organizational complexity, and decision-making speed. Democratic processes, while valuable, may sometimes slow organizational responses to rapidly changing market conditions.

In contrast, Capital-Based Enterprises typically possess greater flexibility in attracting investment capital, implementing strategic decisions, and pursuing rapid expansion. However, their focus on shareholder returns does not necessarily align with the interests of consumers, workers, or small producers.

The choice between cooperative and investor-oriented organizational forms therefore reflects a series of trade-offs involving equity and efficiency, participation and managerial speed, member welfare and capital growth, as well as collective interests and investor returns. Understanding these trade-offs is essential for evaluating the comparative advantages of different institutional arrangements.

5. Governance and Professionalization of Cooperatives

Governance remains one of the most important determinants of cooperative success. Many cooperative failures are not caused by weaknesses in cooperative principles but by deficiencies in management, accountability, supervision, and organizational discipline.

Modern cooperatives require governance systems that combine democratic control with professional management. Members must retain ultimate authority through democratic processes, while day-to-day operations should be managed by competent individuals possessing the necessary technical, financial, and managerial skills.

Professionalization requires transparent financial reporting, effective risk management systems, internal controls, performance monitoring, and continuous education for both members and managers. As cooperatives become larger and more complex, governance systems must evolve accordingly to maintain efficiency while preserving democratic legitimacy.

The future competitiveness of cooperatives depends heavily on their ability to integrate democratic values with modern managerial practices.

6. Cooperatives in the Digital Economy

Digital transformation is reshaping production systems, distribution networks, financial services, and consumer behavior. Cooperatives must adapt to these changes in order to remain relevant within increasingly digital and data-driven economic environments.

Digital technologies create opportunities for cooperatives to improve operational efficiency, strengthen transparency, expand market access, reduce coordination costs, and enhance member participation. Platform cooperatives, digital marketplaces, integrated supply chains, and digital financial services represent emerging areas of innovation.

At the same time, digitalization introduces new challenges. Cooperatives must invest in technological infrastructure, develop digital competencies, protect data security, and compete against large platform-based corporations that possess substantial financial and technological advantages.

The future of cooperatives will therefore depend in part on their ability to utilize technology not merely as a business tool, but as a mechanism for strengthening member participation and collective economic organization.

7. Repositioning the Role of the State in Cooperative Development

The experience of cooperative development across different countries demonstrates that healthy cooperatives cannot be created solely through administrative policies or legal establishment programs. Sustainable cooperative development requires a supportive ecosystem that enables members to engage in meaningful economic activities.

The role of the state should therefore focus on creating enabling conditions rather than simply increasing the number of cooperatives. Such conditions include education and training, access to finance, infrastructure development, regulatory support, digital transformation, market integration, and effective supervision.

Governments also play an important role in facilitating cooperative consolidation and strengthening inter-cooperative collaboration. Economies of scale and stronger institutional networks can significantly improve cooperative competitiveness within modern markets.

Ultimately, the objective of public policy should be to foster economically viable and member-oriented cooperatives rather than merely increasing the number of registered organizations.

8. Global Cooperatives and Epistemological Challenges

The global cooperative movement demonstrates that cooperatives can operate successfully across a wide range of sectors, including agriculture, finance, insurance, retail trade, healthcare, housing, and renewable energy. Many large cooperatives have achieved levels of scale and professionalism comparable to those of major investor-owned enterprises.

Despite these achievements, cooperatives remain underrepresented within mainstream economics, management education, and business research. Conventional economic theories frequently focus on investor-owned firms while devoting relatively little attention to alternative forms of enterprise organization.

This imbalance creates an epistemological challenge. Cooperatives must be recognized not only as practical organizational models but also as legitimate subjects of academic inquiry and economic theory. Strengthening cooperative education, research, and scholarship is therefore essential for expanding understanding of alternative approaches to economic organization.

9. The Future of Cooperatives in the Modern Economy

The future relevance of cooperatives will depend on their capacity to adapt while preserving their distinctive institutional identity. Cooperatives must continue to create member value, maintain economic competitiveness, and respond effectively to changing social, technological, and market conditions.

Emerging opportunities exist in sectors such as renewable energy, sustainable agriculture, community-based services, digital platforms, circular economy initiatives, and social innovation. Cooperatives are particularly well positioned to address challenges associated with economic inequality, market concentration, and the growing influence of digital monopolies.

Future cooperative development will require innovation in governance structures, financing mechanisms, digital capabilities, and business models. Hybrid organizational arrangements, strategic alliances, and new forms of capitalization may become increasingly important, provided that member control and cooperative principles remain intact.

The cooperative model remains relevant because it offers a distinctive mechanism for combining economic efficiency with democratic ownership, collective action, and equitable benefit distribution. In an era characterized by increasing concentration of economic power, these attributes may become even more important.

10. Conclusion

The discussions presented throughout this book demonstrate that cooperatives should be understood as member-based enterprises operating within market economies. Their distinguishing characteristics lie in the integration of ownership, control, participation, and benefit distribution within a democratic institutional framework.

Cooperatives possess significant strengths in generating collective efficiency, reducing transaction costs, strengthening bargaining power, correcting market imperfections, and promoting more equitable economic outcomes. At the same time, they face persistent challenges related to participation, governance, capitalization, professionalization, and organizational adaptation.

The continued success of cooperatives will depend on their ability to balance economic democracy with business efficiency, collective values with managerial professionalism, and institutional identity with organizational innovation. Cooperatives must remain capable of creating tangible benefits for members while adapting to the realities of digital transformation, globalization, and increasing market complexity.

Ultimately, cooperatives represent more than an alternative business model. They embody a distinct approach to organizing economic activity through collective ownership, mutual benefit, democratic participation, and shared responsibility. As long as cooperatives continue to generate meaningful value for members and communities, they will remain relevant and important institutions within the modern economy.

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GLOSSARY

Agency Problem

A conflict of interest between owners and managers of an organization arising from differences in objectives and information.

Aggregator

The function of a cooperative in pooling members' demand or supply to achieve larger economies of scale.

Apex Organization

A top-level cooperative organization functioning as a national or cross-sector representative body for cooperatives.

Bargaining Power

The ability of a party to influence prices, contractual terms, or market outcomes in negotiations with other parties.

Business Diversification

A strategy of developing multiple business activities to reduce risk and expand sources of income.

Capital-Based Enterprise (CBE)

An enterprise in which ownership, control, and the distribution of residual returns are primarily determined by the amount of capital invested by shareholders or investors.

Capital Remuneration

A limited return provided on members' capital contributions within a cooperative.

Collective Action

Joint actions undertaken by members to achieve shared economic objectives collectively.

Collective Efficiency

The economic benefits generated when individuals work collectively through a cooperative, achieving greater efficiency, market access, and bargaining power than they could obtain independently.

Competitive Yardstick

The role of cooperatives as benchmarks for price and quality in markets, thereby promoting fairer competition.

Concern for Community

A cooperative principle emphasizing concern for the social and economic development of the community.

Consumer Surplus
Economic benefits received by consumers when the price paid is lower than the maximum price they are willing to pay.
Control Problem
The problem of weak member oversight over cooperative boards or management.
Cooperative Digitalization
The utilization of digital technology in cooperative organizational and business management.
Cooperative Effect
The collective economic impact generated through cooperation among cooperative members.
Cooperative Enterprise
A member-based enterprise owned and democratically controlled by its members, established to meet their common economic, social, and cultural needs through jointly owned and managed activities.
Cooperative Federation
An association of cooperatives established to strengthen coordination, representation, and business efficiency.
Dual Identity
A characteristic of cooperatives in which members simultaneously act as owners and users of cooperative services.
Economic Democracy
A system of economic organization in which individuals collectively participate in economic decision-making, ownership, and the distribution of economic benefits based on principles of democracy, equity, and solidarity.
Economic Ecosystem
A network of institutions, enterprises, markets, government agencies, and stakeholders whose interactions influence economic development and performance.
Economies of Coordination
Efficiency gains achieved through the coordination of activities, information, and transactions among members or organizations.
Economies of Scale
A reduction in average costs resulting from increased production or transaction scale.

Economies of Scope
The efficiency gains obtained when a cooperative uses shared resources, facilities, or organizational capabilities to support multiple products, services, or business activities, thereby reducing costs, increasing value added, and enhancing member benefits.
Efficiency
The ability to achieve desired outputs or outcomes using the least possible amount of resources.
Enterprise
An organization engaged in economic activities for the production, distribution, or provision of goods and services, regardless of its ownership structure or legal form.
Externalities
Economic impacts of an activity on parties outside the primary transaction.
Free Rider Problem
A condition in which members enjoy cooperative benefits without participating proportionally.
Good Cooperative Governance
Principles of sound, transparent, democratic, and accountable cooperative governance.
Horizon Problem
The tendency of members to focus more on short-term benefits than long-term cooperative investments.
Hybrid Cooperative
A cooperative model combining cooperative characteristics with mechanisms of Capital-Based Enterprises (CBEs).
Influence Cost Problem
Costs and conflicts arising from attempts by certain groups to influence cooperative decisions for their own interests.
Information Asymmetry
A condition in which one party possesses more information than another party in an economic transaction.
Information Cost
Costs incurred to obtain and process information in economic activities.
Institutional Economics

An economic approach emphasizing the importance of rules, organizations, and institutions in shaping economic behavior.

Internal Market Organizer

The function of a cooperative in organizing internal member transactions in a more stable and transparent manner.

Leapfrogging

A process through which cooperatives accelerate development by adopting innovative organizational, financial, or technological models that bypass conventional stages of growth.

Maintain-the-Market Strategy

A cooperative strategy aimed at maintaining market access and members' economic stability.

Market Access

The ability of cooperative members to reach and participate in markets for buying inputs, selling products, or obtaining services through collective action, thereby reducing market barriers and improving economic opportunities.

Market Failure

A condition in which market mechanisms fail to produce efficient or fair resource allocation.

Member Participation

The involvement of members in cooperative economic and organizational activities.

Member Value

The total economic, social, and institutional benefits received by members through their participation in a cooperative.

Member-Based Enterprise (MBE)

An enterprise owned and controlled by members who primarily use its services, with governance based on democratic participation rather than capital ownership.

Monitoring Cost

Costs incurred in supervising organizational management.

Net Surplus (SHU)

The net income generated by a cooperative after deducting all operating expenses, financial obligations, taxes, and other authorized charges during an accounting period.

NSD (Net Surplus Distribution)

The allocation of a cooperative's Net Surplus (SHU) among members and other authorized purposes in accordance with cooperative bylaws and member participation.

One Member One Vote

A cooperative democratic principle in which each member has one voting right.

One Share One Vote

A capital-based enterprise principle in which voting rights are determined by the number of shares owned.

Patronage Refund

The portion of Net Surplus (SHU) distributed to members in proportion to their economic participation and use of cooperative services during a given period.

Platform Cooperative

A cooperative utilizing digital platforms as the basis for business operations and member coordination.

Portfolio Problem

The difficulty members face in aligning investment preferences within cooperatives due to collective ownership structures.

Preference Alignment

A condition in which the interests of owners and users are aligned, reducing conflicts of interest and improving organizational efficiency.

Present Value of Member Value (PVMV)

The discounted value of future economic and social benefits expected to be received by cooperative members over time.

Price Influencer

The ability of cooperatives to influence prices through collective transaction power.

Primary Cooperative

A cooperative whose members are individuals directly.

Producer Surplus

Economic benefits received by producers when the selling price exceeds their minimum acceptable production cost.

Residual Claim

The right to receive the remaining surplus, profit, or assets after all obligations, expenses, and claims have been satisfied.

Risk Mitigation

Efforts to reduce the likelihood and impact of risks.

Secondary Cooperative

A cooperative whose members are other cooperatives.

Solidarity

The spirit of mutual support and cooperation among cooperative members.

Stakeholder

Any individual, group, or organization that can affect or is affected by the activities, decisions, or performance of an enterprise or cooperative.

Supply Aggregation

The pooling of members' production outputs to increase scale and bargaining power.

Trade-off

A condition in which improvement in one aspect leads to a reduction in another aspect.

Transaction Cost

Costs arising during the process of economic exchange or transactions.

User-Owned Enterprise

An enterprise owned by users of its services or products.

Value Chain

A series of activities that create added value for a product or service.

Vertical Integration

Business development along the value chain, from upstream to downstream activities.

Voting Right

The formal right of a member, shareholder, or authorized representative to participate in organizational decision-making through voting.

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