

An Introduction to The Theory of Cooperative Entrepreneurship

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Abstract

Cooperative is a legal form of business in Indonesia. As a collectively-owned firm, little attention has been paid to the study of entrepreneurial aspects of this firm. Entrepreneurship is often associated with the activities of individual player called entrepreneur. Meanwhile in a cooperative, entrepreneurship is not carried out by an individual owner but by the group of owner. In this context, the research question in this paper is how does the joint ownership encouraging entrepreneurship spirit and create effective outcomes?. Another important activity to be further investigated in cooperative entrepreneurship is decision-making of the member firm as the owner of the cooperative firm and the decision making of cooperative firm itself. The member firm's decision, i.e. production and investment decision, should be aligned with the decision of the cooperative firm. It requires an intensive coordination between them. The traditional one member one vote decision right to some extent is no longer suit to the need of the cooperative today. The decision right system has been shifted to the system called proportionality decision right. Even in some countries, cooperatives have developed hybrid ownership structure which have completely abandoned one member one vote decision system. This paper at the end exploring the implication of these practices to the cooperative entrepreneurship in general.

Keywords: cooperative entrepreneurship, ownership, decision-making

1. Introduction

Cooperatives are playing an important role in many sector of economic. We can find them in food production and its marketing (agricultural cooperative), retail trade (consumer cooperative), financial institutions (cooperative bank, credit union), payment point (service cooperatives), housing and health care.

Despite playing an important role, cooperative are facing many problems. Lack of qualified human resource, mismanagement, poor cooperative education, less entrepreneurial spirit, etc are several of them. It seems that these problems make people don't believe with cooperative business model.

At schools and academic level, the economic paradigm has been shifted from institutional analysis to the neoclassical analysis and the global dominance of US economic also considered to be the factors which impede the development of cooperative. Kalmi (2007) noted the disappearance of cooperative subject in mainstream economic text book especially after the World War II. The cooperative discussions are also neglected in mostly management textbook (Chamard and Webb: 2004).

The above mentioned problems classified into internal and external problems. This paper attempts to explore the internal dimension of entrepreneurship in cooperative which so far paid less attention by cooperative and entrepreneurship studies. Therefore it proposes an introduction to the theory of cooperative entrepreneurship.

An interesting question that arouse in the beginning of this discussion is, is entrepreneurship in cooperative firm difference from the one in non cooperative firm? To enrich our analysis, we may begin with the domain of entrepreneurship study.

2. Entrepreneurship Domain

Entrepreneurship research is based on the four grand domains (Busenitz, et al: 2003) namely (i) The construct of opportunities, (ii) Individual and teams, (iii) Mode of organizing, and (iv) Environments.

Opportunities appear from the interactions between market and environment. *The individual and teams* focus on the individual and teams' characteristics, the dynamic processes associated with the development of intellectual or human capital of individuals and teams, type of entrepreneurs, and comparison between entrepreneurs and non entrepreneurs. *The mode of organizing* such as management practices, the acquisition and deployment of resource and the development of systems, strategies and structures that allow a discovered opportunity to be transformed into a product or service. *The environment* related to the rates of start-up at a population level and the cultural, economic or market factors converging to create and environment that enhances or inhibits entrepreneurship.

However, Busenitz, et al (2003) argues that entrepreneurship research should be focus on the intersection between the domains. By focusing on each domains only, it is imposible to get a comprehensive view of entrepreneurship phenomenon. Opportunities may exist independently (Shane: 2000 and Shane and Venkataraman: 2000), but the opportunities are not useful without any decision

which is made by the individual and /or teams. In order to run the decision effectively, it also needs an effective mode of organizing.

3. Entrepreneurship Function and Cooperative Entrepreneurship Defined

So far, we have seen that there is no difference between entrepreneurship in cooperative firm and non cooperative firm. The explanation above is also indicating that all entrepreneurship domains are interdependent to each other. We can begin the entrepreneurship function analysis by appearing a question “ who is someone that we called entrepreneur?” Entrepreneur often associated with those who willing to take a risky decision. But they are moderate risk taker. They recognize opportunity based on their knowledge, background, experience and their interpretation over the changing environment which will be expected to increase their success. They are facing uncertainty as the same as others. After analysing all valuable information, they finally take a decision to execute the opportunity. For others they seemed to be irrational. But at some stages in running a business, entrepreneurs exploit their intuition, courage and wisdom which others probably do not well-equipped. They use their own judgement to support their decision. Therefore in this context, entrepreneurship is defined as the function of judgment decision-making under uncertainty over the deployment of assets (Bijman and Doorneweert : 2008).

Cooperatives are member-owned business. An internationally recognized definition of cooperative is provided by International Co-operative Alliance (ICA) “ 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”.

Cooperative has seven principles: voluntary and open membership, democratic member control, member economic participation, autonomy and independence, education, training and information, cooperation among cooperatives and concern for community.

Cooperative firm is not only an association but also an enterprise. Cooperative entrepreneurs are the owner of assets in the cooperative firm. It means they have control over the assets. There are two ways in controlling the firm, either through owner also as manager or by owner hiring manager to control the firm. These ways have different implication. Cooperative firm managed by the first way indicates the increasing of entrepreneurship through the judgement undertaken by the owner. Meanwhile, if it is managed by the second way, entrepreneurship tends to low.

The amount of cooperative owner is also influencing the entrepreneurship tension. The more owner the lowest entrepreneuruship tension. It is difficult to take a quick response toward opportunities under a huge number of team member. The cooperative membership is vary in each countries. Indonesia cooperative act for

example requires at least twenty individuals as member to make a cooperative. While in Germany cooperative act requires only seven individuals.

The new generation cooperative has adopted the new model which called hybrid (mixed) ownership structure. Cooperative financial structure is not anymore depend on membership fee and bank loan, but also from another alternative. There are four models of the hybrid structure as proposed by Jungmeister, et al (2013):

1. Corporate with cooperative characteristics
In this model, a company is built in form of corporate but in its operation including decision-making process, it follows the cooperative characteristics.
2. Capital-oriented cooperative
In facing the lack of financial resource, corporate may get the capital from private equity scheme or get it from capital market through Initial Public Offering (IPO). Meanwhile, cooperative financial source is limited to membership fee and bank loan. So, in order to solve the lack of financial source, in this model a cooperative may issue special membership fee for special member or it is called second class membership. To some extent, this is similiar to preferred stockholders. They are residual (profit) claimant but without voting right. This instrument is aimed to attract investor's interest since the investors have to see prospect of the cooperative firm but unwilling to involve in the decision-making process.
3. Cooperative as a holding company of corporate(s)
In this model, cooperative firm enacted as the owner of corporate(s). The cooperative holds the majority stocks of the corporate(s). The advantage of this model is the owner can combine between cooperative and corporate governance, and also the capital combination. The examples of this model are applied by group of Migros and Coop in Switzerland.
4. Cooperative as subsidiary company of corporate
This is the vice versa of the third model. The best example for this model is what have been applied at Clientis group. The main reason of this model is to solve the financial lack of the cooperatives. The subsidiary in cooperative business form follows the cooperative principles.

Entrepreneurship function in cooperative is as the maker of decision over deployment of assets, decision of member firm should be aligned with the decision of cooperative firm. There should not be a competition among them. This characteristic makes the relationship of member firm and cooperative is somehow different with the relationship in general joint venture.

Basically cooperatives adopts one member one vote (OMOV) princip as representation democratic member control. But what does the mean of democratic in this case? Does the practice of democratic always mean OMOV decision system? There are several alternatives decision right systems in order to

encourage entrepreneurial aspects in the cooperatives. *First* is called proportional decision right. It is a system which related to the patronage. The cooperative founders which have an important contribution in the early stage of a cooperative life cycle—hereby called patron, is positioned as the representative of other members. So if the number of the cooperative member is excessive, they are voluntarily will delegate their decision right to their representative (patron). *Second*, it is related to the volume of transaction. For member firm which has highest transaction volume with the cooperative firm will get the highest voting right proportionally. This system is supporting fairness in managing decision because in many cases not all member are active members. The *third* is tied to the cooperative shares. The more cooperative shares they hold, the more voting right they have. This third system get many critiques especially in Indonesia case. The cons think that if that system is applied, there are no differences at all between cooperative and corporate. Therefore, in this year (2014) the newest Indonesia co-operative act which contains this system was cancelled by the Indonesia Constitutional court.

Based upon the above explanations, we may make a conclusion to the definition of cooperative entrepreneurship. I would like to define it as “ the judgement decision-making under uncertainty among cooperative members over the cooperative assets’ deployment which aligned each others”.

4. Implications

Within the scope of this paper, the next challenge for cooperatives is how to maintain their entrepreneurial activities under the restructured system. System restructuring is also indicating the involvement of new members with different interest. If cooperative firm does not have a clear strategic planning and good governance practice, the possibility of the firm to become less entrepreneurial is high. The conflict of interest between old members and new members has an impact to become less entrepreneurial. The separation of the owner and management also creates conflict of interest. Manager may act outside of the owner’s interest. Therefore, there should be a clear agreement for the entrepreneurial management of the cooperative firm.

The larger cooperative firm in term of member, the more complicated entrepreneurship to be managed. The establishment of new cooperatives with small member either outside or inside the established cooperative may be proposed as a way out. The relationship of the owner member and the manager is closed and become easier to discuss the strategy and operational decision.

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