

## **EMPOWERMENT STRATEGIES IN COOPERATIVE AND MICRO, SMALL, MEDIUM ENTERPRISES (MSME) TO INCREASE PEOPLE'S INCOME**

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***Abstract:** The study attempts to describe a development of empowerment strategy for cooperative and Micro, Small, Medium Enterprises (MSME). Research and development method and explorative survey are used as the methodology of the study. In analyzing the data, the author conducted observations, interviews, and a documentation study. Then as the object of the study, the author focuses on the cooperative and Micro, Small, Medium Enterprises in Bandung city. The findings indicated that the empowerment program conducted by stakeholders (government, financial and educational institutions) were not integrated and no synergy among the involved stakeholders. Thereby, the stakeholders need a synergic pattern in empowering and developing programs for the MSME. The success of the empowerment strategy depends on the participation of cooperative and MSME as the agent and the support of the other stakeholders in developing the empowerment.*

***Keywords:** Empowerment Strategy, Cooperative, Micro Small Medium Enterprises*

### **1. INTRODUCTION**

History has shown that MSME in Indonesia have survived and keep growing in spite of the monetary crisis in 1998. MSME even became "a life preserver" for Indonesian economy recovery because of the enterprises' ability in contributing to the Indonesian domestic production gross receipts. They significantly contributed 53% of the domestic production gross receipts in 2009. It is without deceit that MSME were and still acknowledged as a prominent figure in actuating the national economy.

The tendency of MSMEs to contribute significantly to the economic development does not only happen in Indonesia and other developing countries but also in developed countries. The phenomena have encouraged the United Nations to determine the year 2004 as the year of international microfinance. It shows not only the support of the

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multi-nations body, but also a conviction to facilitate and stimulate the development of MSME.

The development of Cooperative, Micro, Small and Medium Enterprises (CMSME) has great potential as a strategic and economic actuation by creating work fields and increasing revenues. CMSME can be a balancing factor for the equity of employment. CMSME as a reliable asset can play the role as an economic activator for communities in rural, urban and even in disadvantaged areas.

However, MSME are still facing various issues related to the unfavorable business climate such as uncertainty and vagueness of licensing procedures which resulted in more expensive transaction costs; complicated permitting process and the potential of various unofficial charges and unfair business competition.

The low productivity of MSME can result in a very wide gap between actors and major businesses. The low level of productivity is caused partly by the poor quality and entrepreneurial competence of human resources.

Furthermore, MSME still facing obstacles in accessing capital sources of production, technology and marketing. This situation adds to the helplessness in increasing capacity and competitiveness of the products. Most of the MSME still facing difficulties in gaining access to financial institutions due to the lack of collateral. Therefore, the challenge ahead is to accelerate the use of revolving funds from government, business credit and credit guarantee implementation. While in coping with the production, technology, and marketing we need to accelerate and improve the facilitation of production and technology plus the information market opportunity. In line with this, the future challenge is to improve the development of cooperatives to implement the cooperative values and principles.

MSME business fields are very diverse, such as food and beverage, services, agriculture, fisheries, handicrafts, retail, transportation, and so forth. With such many actors, and if supported by the right policies, MSME can be strong and continue to grow. Therefore, we need to apply a systematically / institutionalized empowerment of cooperatives and MSME. It is hoped that this study can produce a strategy for realizing an advanced MSME and play a positive role in the national economy to improve the people economy

## **2. LITERATURE REVIEW**

Cooperative enterprise as a business entity is established under the law no. 25 1992. A cooperative enterprise like other business entities has an authority to run its business as long as it does not violate the Indonesian law with its normative ideology. A business is a rational process that culminate in creating profits. An accumulation of the profits is used to serve the cooperation enterprise's members. Thereby, a cooperative business can be operated as long as it heeds to the following two main points:

- The business is in accordance with its members' needs and supports the empowerment of its members
- The business's profits are allocated for the members that suit with the members' contribution.

Attention to the welfare of society in addition to members in accordance with the objectives of Indonesian cooperatives, as stipulated in Article 3 of Chapter II within the Law No. 25 year 1992, namely, to promote the welfare of members in particular and society in general as well as help build national economic order to realize an advanced, equitable, and prosperous society based on Pancasila and the 1945 Constitution.

The operation of cooperatives is based on cooperative principles such as: (a) membership is voluntary and open, (b) management is democratically operated, (c) the distribution surplus (SHU) is conducted in a fair proportion to the amount of contribution of each member, (d) the provision of remuneration which is limited to the capital, (e) Independence. In addition to the binding principles of internal organization, the cooperative has another principle related to external organizations namely, (a) cooperative education, (b) cooperation among cooperatives

The above discussion shows the cooperative can be seen as a business unit (micro dimension) and economic systems (macro dimension). In the micro dimension, the cooperative has the obligation and the same rights as other economic actors. In the macro dimension, the cooperative is an ideology that should be serve as role models for national economic actors.

An understanding of both dimensions can avoid misleading thoughts about the concept of "cooperation as a central pillar of the economy". The two dimensions can be described in the following table:

Micro dimensions have consequences. As some cooperative economic organizations that have the obligation to handle business based on the principles of efficiency, effectiveness and productivity. It is the main requirement for cooperative to be alive and able to develop themselves through the accumulation of assets as a prerequisite to provide better service for their members.

**Table 1**  
**Micro Dimension and Macro Dimension Criteria**

<i>Criteria</i>	<i>Micro Dimension</i>	<i>Macro Dimension</i>
Meaning	Cooperatives as a business entity	Cooperatives as an economy system
Identity	Members act as owners and customers	Economy Democratization
Actors	Member Management Superintendent	State-owned enterprises Private-owned enterprises BUMK
Implication	Efficient and effective operation with high productivity for optimum service for members.	Populist economic system.

Cooperative as a social system is a growing movement based on shared interests. This implies that a cooperative dynamic must be aligned with the designated objectives. Collegial spirit needs to be maintained through the application of deliberation in decision making. In this sense, the cooperative is a self-help organization with special characteristics (Hanel,1985,36).

Studying the cooperative as a business entity and non-governmental organizations is to obtain a clear picture of man's position in the constellation of the cooperative system. Cooperative sets "human" factor as an important element in organizational systems. Human is a central development that plays an important position in the process of improving the welfare.

A Cooperative management task is to collect, coordinate and develop the potential of its members to create a power to improve their welfare through a process of "value added". It can be done if the existing resources can be managed efficiently and innovatively with a strong leadership ability.

Cooperative management has a task of evoking available potentials and motives by understanding the objective conditions of the members as well as other human beings. The management is required to always think one step ahead in providing benefits compared to competitors. Thus, the members or prospective members will be moved to choose the cooperative as an alternative to a more rational in economic transactions.

The formulation of the benefits will be different for each person. It depends on the views of life towards the value of the benefit itself. Cooperatives motive for some people is to obtain economical added value such as, increasing income or assets. But for some people to become a member of a cooperative were not only for the financial reasons but also for the inner satisfaction or other idealistic reasons.

To maintain the momentum of growth and development of cooperative, the cooperative management need to strive for maintaining a profitable alternative, in another sense, cooperative management must be able to maintain the benefits better than the benefits provided by non-cooperative enterprises. A cooperative must always develop a competitive and comparative advantage in the development of management systems.

Aware of cooperative organizations as stipulated in article 21 of Law No. 25 1992 stated that a cooperative orgware consists of, (a) a members meeting, (b) a board, and (c) supervisors. All those three have a task to form a unified management system and applied it with a good commitment among the orgware.

Members Meeting is a collective voice of the organization and it also considered as the owner of the highest authority. Ideas and basic policies generated in this forum. Statutes and bylaws, budget revenue and expenditure, and basic program and basic provisions made by consensus of the members, which in turn implemented by administrators or managers and supervisors. Systematically, Roy (1981,426) refers it as the members' authority and responsibility.

The law no. 9 year 1995 regarding small businesses stated that it can be categorized as small businesses as long as the turnover is below 1 billion rupiahs, has assets of less than 200 million rupiahs excluding land and buildings and not subsidiaries of any large enterprises. Furthermore micro and small business enterprises can be classified as follows:

- The group of micro-enterprises with a turnover of under Rp. 50 million
- Small business group with a turnover between Rp 50 million - Rp 500 million.
- A group of medium-sized businesses that have a turnover of between Rp 500 million - Rp 1 billion.

Actually only a small business in category two or three that deserve to be called as a small business, even in a regional comparison, only the third category that can be considered as enterprises in international talks.

While Glendoh (2001) suggested that small enterprises in a broad sense can be characterized as follows:

- Small industry is small-scale industries, both in the size of capital, the amount of production and labor.
- Capital is collected generally from unofficial sources such as family savings, loans from relatives and possibly from "loan sharks".
- Due to its small scale, the nature of management is centralized, as well as making decisions with little or no delegation functions in the fields of marketing, finance, production, and so forth.
- Existing labor generally consist of a family member or close relatives, the nature of the working relationship "informal" with technical qualifications who is or was developed while working.
- The relationship between technical skills and expertise in the management of this small industrial enterprises with a formal education that held the workers are generally weak.
- The equipment used are simple with low output capacity.

Small businesses have a potentially vital role in supporting development and economic sectors, namely:

- Small businesses are beneficial for employment
- Small businesses are producing goods and services at a price that is affordable for the needs of many low incomes people
- Small businesses are a potential devizen producing due to its success in producing non-oil commodities.

Based on the potential characteristics above, it is becoming a necessity that small businesses need to be constantly nurtured and empowered in an ongoing basis so that it can develop and advance further.

Guritno (1999) stated that the development of MSME in Indonesia can be seen from the four-level development policies, namely: a meta level, the macro level, meso and micro level. At a meta level, the political will of the founder of the Republic of Indonesia has supported legislation based on a clear and unequivocal toward cooperatives as stated in Article 33 UUD 1945. MPR also expressly always include the need for the empowerment of MSME in any established national guidelines and further strengthened by the Law No. 25 year 1992 concerning Cooperatives and Law 9 year 1995 on Micro, Small and Medium Enterprises.

Policies on a macro level will determine whether an economic system and condition conducive with MSME development. Policies on macro level will determine the structure and the level of market competition faced by businesses including MSME. The task of the Government (central and local) is to foster a conducive climate for MSME.

Macro policy can be transferred in to a micro level (MSME scale) mainly through strengthening the support mechanism at the meso level. At the meso level, strengthening policy support can be divided into financial and non-financial support. The process of strengthening support transmission at meso level to the micro level requires a tool in the form of innovation process and empowerment, to target offenders that can MSME anticipated and responsive to the policy at the level of meta, macro and meso. Thus the effectiveness of MSME empowerment is determined by the alignment and synergy policy at the meta, macro, micro and meso level.

Empowerment evolved in Europe starting in medieval era, continued to grow until the end of the 70s, 80s, and early 90s. The concept of empowerment is then affect later developing theories. Regarding the concept of empowerment, Ife (1995) states that Empowerment is a process of helping disadvantaged groups and individual to compete more effectively with other interests, by helping them to learn and use in lobbying, using the media, engaging in political action, understanding how to 'work the system,' and so on.

On the other hand Paul (in Prijono and Pranarka, 1996) says that empowerment means a fair distribution of power thus increasing political awareness and power on vulnerable groups and increase their influence on "the process and outcomes of development." While Friedman (1992) added that alternative development emphasizes the primacy of politics through the decision-making autonomy to protect the interests of the people, which is based on private resources, directly through participation, democracy and social learning through direct observations.

Based on its operational process, the idea of empowerment has two preferences:: First, primary tendency or known as the tendency process that provides or divert some power, strength, or ability to the public or individuals to become more empowered. This process can be equipped with a material asset building to support the development of their self-reliance through the organization; and the second one is the tendency that emphasizes the process of stimulating, encouraging or motivating

individuals to have the ability or the empowerment to determine what became of his choice through a process of dialogue.

The two tendencies above provide (at the extreme point) the opposite effect, but often to realize a primary tendency, one's have to go through the first secondary tendency (Sumodiningrat, Gunawan, 2002). Cooperative and MSME empowerment is a concept that summarizes the economic development of social values. The concept reflects a new perspective of "*people centered, participatory, empowering, and sustainable*" (Chambers, 1995). This concept is broader than merely satisfy basic needs or provide a mechanism to prevent a further safety net, which recently it has been developed as an effort to find an alternative to the concepts of growth in the past. This concept evolved from the efforts of many experts and practitioners to look for what is, one of them is Friedman (1992). He stated that alternative development, requires 'inclusive democracy, appropriate economic growth, gender equality and intergenerational equity' (Kartasmita, Ginanjar 1997).

According to Sumodiningrat (2002) There are three sides that can be considered In order to empower cooperatives and MSME , they are; First, to create an atmosphere or climate that allows the cooperative potential and growing MSME (enabling). Here the starting point is the recognition that every human being, every society, has the potential to be developed. That is, there is no society that is completely without power, because if so would have become extinct. Empowerment is an attempt to build that power by encouraging, motivating, and raise awareness of their potential and strive to develop the potential.

Second, to strengthen the potential of power or owned cooperatives and MSME. Important and concrete steps are needed to support the MSME instead of just creating a climate and atmosphere. This empowerment includes concrete steps, and involves the provision of various inputs as well as the opening of access to the various opportunities that would make people more productive. Empowerment is not only include the strengthening of individual members of society, but also their regulations. an essential part of this empowerment are by Instilling the values of modern culture, such as hard work, thrift, transparency, and accountability.

Third, to empower Also means to protect. Protecting should be an attempt to prevent unbalanced competition, as well as the exploitation of the strong over the weak. Empowerment Cooperative and MSME not make them become increasingly dependent on a variety of granting programs. They must be independent. Thus, the goal is the Cooperative's and MSME independence and build a capacity to promote themselves to a better direction on an ongoing basis.

The main approach to the concept of empowerment is that cooperatives and MSME are not positioned as the object of various development projects, but as the subject of its own development. Based on that concept, Sumodiningrat (2002) suggested that Cooperative and MSME empowerment should follow the following approach; first, the empowerment should be directed. This is also known as prioritizing. an effort is

addressed directly to the need, along with the designed programs to tackle the problems. Secondly, this program should directly involve or even implemented by the targeted Cooperative and MSME. The objectives are to make sure that the aid is effective and in accordance with their abilities and needs. In addition, it can enhance the ability in designing, implementing, managing, and be responsible. Third, using a group approach, because Cooperatives and MSME difficult to solve the problems individually. This group approach is the most effective and efficient in terms of the use of resources.

### **3. RESEARCH METHODOLOGY**

#### **3.1. Research method**

The research method used in this study is a research and development method as well as exploratory survey with a qualitative approach. the method is aimed at creating something new based on the results of previous studies. Sugiyono (2008: 407) argues that research and development method is used to produce a product, and test the effectiveness of the product. Furthermore, according to Borg and Gall (cited in Subagyo, 2004:105), process research using a research and development begins with studying related research findings that will be developed, and then draft the development, conduct limited testing, correct deficiencies and weaknesses of the model, tested extensively, and finally conducting a reflection to enhance dissemination and implementation models. Exploratory survey method is a form of inductive approach that aims to obtain a discovery regarding what you want to know about a situation that is not (yet) satisfying.

The study was not designed to test any hypothesis, but to obtain answers from the formulated questions in the study by describing the data, facts and trends that occur, then make a analysis and recommended strategy to achieve the goals. This research is directed to identify and analyze the empowerment strategy for Cooperative enterprises and MSME.

Data analysis was conducted using a qualitative approach. Wolcott in (Subagyo 2004: 260) states that the steps of qualitative data analysis consists of : "data display, data reduction, conclusions, drawing, and verification."

### **4. FINDINGS AND DISCUSSIONS**

#### **4.1. A Strategy to Achieve a Developed MSME which is useful to the National Economy**

As we know that small and medium micro enterprises is one of the leading and driving force of economic development. The MSME sector is vital for creating growth and employment. MSME is quite flexible and can easily adapt to the tides and the direction of the market demand. They are also creating employment faster than other business sectors, and they are also quite diversified and give an important contribution to the country exports and trades. Therefore, MSME is one of the important aspects for the national economic development.



The MSME participation in national and international level is still hampered by the classic problems. Classical issue that is still experienced by this sector, can be grouped into a few fundamental issues. First, regarding the lack of monetary capital. The availability of funds to meet the filing requirements of credit to banks. Then, the lack of knowledge in the writing business proposals also inhibit the absorption of soft loans provided by banks.

Second, traditional production methods are still considered as a weakness for the MSME sector to compete, especially in meeting the needs of the international market. With the emerging of AFTA and APEC, MSME sector will face greater challenges and they have to find a solution to the production problems as soon as possible. Moreover, most of MSME do not have the human resources needed to be able to access the international market. MSME generally rely on trading companies that also functions as a collector in gaining as much profit as possible from the price difference. Not to mention the lack of legal basis for MSME in Indonesia. Even if there MSME with a legal entity, such as trading companies, CV, and PT, but usually they are not supported by a competent corporate governance.

In associated to the problems faced by MSME, they need a strategy to give shape to the competitiveness of MSME so that they can play a role in the national economy. Some of the strategies that can be done are as follows:

- *Financing Support*. It is an expansion of funding sources for MSME by preparing credit for investment and business capital loans
- *Marketing Support*, by giving priority based on market opportunities, and bring that product branding, halal certificates, patents and packaging.
- Training in form of development of education and training for MSME to improve the quality of MSME's human resources in production technology, management, marketing and entrepreneurship.
- Information and Technology. It is the development of appropriate technologies to improve the production and provision of information
- *Relationship in form of* initiating visiting and gathering program among MSME.
- Promotion is implemented through radio, newspapers and television.

The pattern of the relationship between aspects of these strategies can be seen in the figure below:

#### **4.2. Empowerment Strategy for Cooperatives and MSME in Bandung City**

In order to empower cooperatives and MSME, the involvement of stakeholders such as government agencies, educational institutions, NGOs, banking and business associations are very helpful for the small business enterprises' success. The

stakeholders' involvement so far have been progressing in accordance with the development of perspective and policy towards MSME. The current Involvement are still partial and less integrative among one stakeholder to the others.

Thus an ideal MSME operation requires an integrated engagement among stakeholders in developing a program to help developing cooperatives and MSME. The relationship between relevant elements can be illustrated in the following figure:

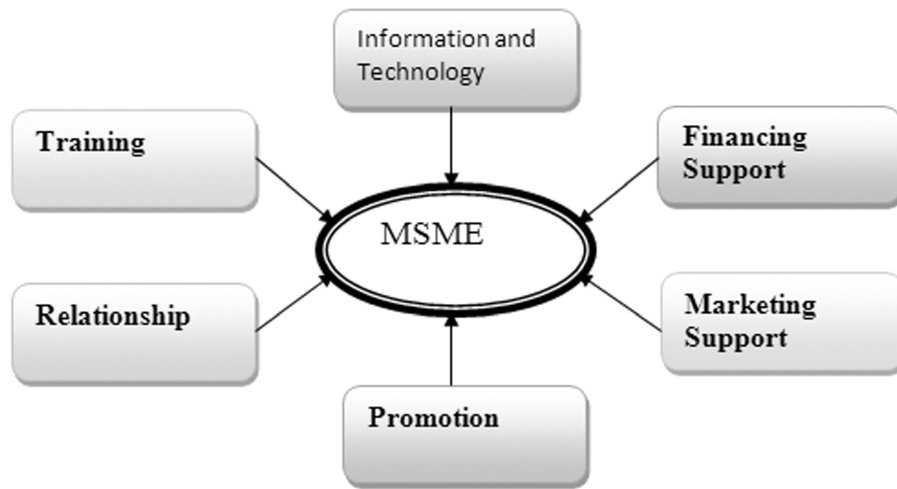


Figure 1: Strategy pattern in developing a more advanced MSME

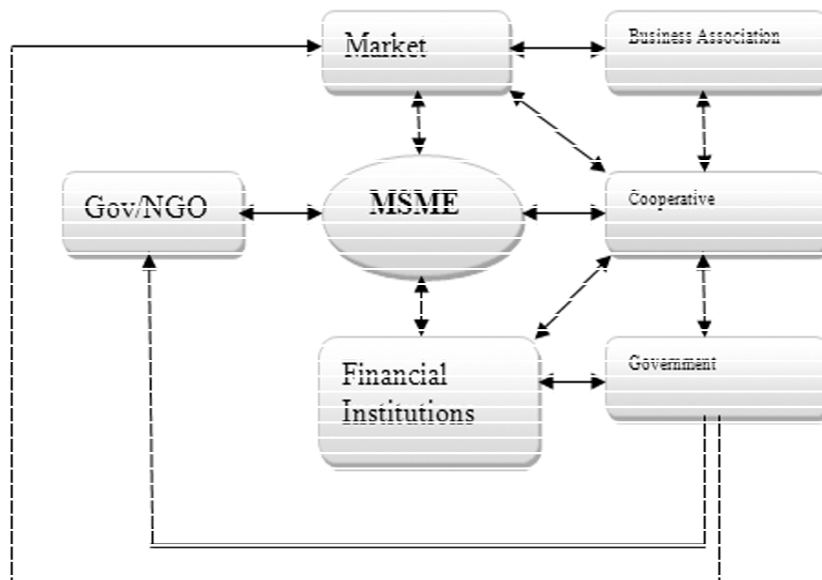


Figure 2: The relationship between relevant elements in Cooperatives and MSME Empowerment

The Empowerment success relies heavily on the participation of cooperatives and MSME as actors and other stakeholders who participated and was instrumental in its development. In this case the empowerment technique puts more emphasis on “bottom up” method, where planning is pursued to answer the needs of cooperatives and MSME conducted in a participatory manner.

In practice, here are some steps to do: (1) Potential identification, (2) Needs Analysis, (3) Joint Work Plan, (4) Implementation, (5) Monitoring and Evaluation. Potential Identification is intended to determine the characteristics of the human resources (HR) of the MSME and Cooperatives as well as the internal environment and social environment, economic and natural resources which related to its business internally and externally. It can be expected that every progress can utilize the capabilities and potential of each region. This identification involves Cooperative and MSME stakeholders and community leaders as well as relevant agencies.

The next step is need analysis. At this stage, the analysis carried out by representatives of cooperatives and MSME which can be facilitated by universities / NGOs and other related institutions to provide facilitation and views on a wide range of needs and trends of products and markets. Thus, It is hoped that individuals and groups business actor can be expected to be coexist and support each other in achieving collective goals.

The third step is make the joint work program to achieve the desired conditions based on targeted priorities . In this stage both companies/ NGOs and related agencies act as facilitators. If the program has been agreed, then the next step is the implementation of the program. In this stage the relevant government agencies function as a facilitator to meet the needs of MSME, while Companies / NGOs can act as a facilitator by providing consulting services. As a consultant Companies / NGOs must obtain services from the services provided to the MSME because it is not easy to draw consulting fees out of MSME. the most important thing is the participation of MSME entrepreneurs in the form of contributions to help the implementation of the program to work, especially process production skill training and MSME business management. The main source of financing for MSME development is still majorly granted from the third parties both public and private, but it is expected that in the long term MSME will gradually be able to be independent and able to provide compensations from consultancy institutions. These conditions also need to be supported by professional consultancy institutions and the government (The Ministry and the Department of Cooperatives SMEs).

The need for MSME capital one of which can be met with the facilitation of Companies / NGO as Financial Consultant Partner Bank (FCPB) for individual and group entrepreneurs. FCPB is born as a new paradigm shift towards MSME banking. The paradigm are as follow: (1) MSME has the saving potential; (2) banks need to be proactive; (3) MSME requires facilitation in obtaining credit / banking services; (4) The banks need to mobilize the savings of MSME; (5) the costs can be reduced through a team

approach; (6) the risk can be reduced through a group approach. Banks can help the MSME in form of technical Assistance. Then, monitoring and evaluation are conducted not only to know what has been done in accordance with the designed program, but also to make necessary adjustments according to changes in MSME environmental conditions.

To support the MSME capital aspect, Cooperative and Companies / NGOs can cooperate with banks to further strengthen the capital. This cooperation can be realized by establishing a specific savings and loan institution (known as *Swamitra*) for MSME entrepreneurs. Profits from this *Swamitra* will increase savings and loans capital and strengthen the management. *Swamitra* agreement is made by the three parties. First Cooperative representing the employers as well as a target for coaching and mentoring. Secondly is Companies / NGO as an institution which has the task to provide guidance and assistance includes:

- Access to services partnership.
- Access to marketing services.
- Human Resources development services.
- Access to technology development services.
- Access to capital improvements.

Third, the Bank has the obligation of supervising and mentoring the management and sufficient credit needs for entrepreneurs. So that within the next few years cooperatives are expected to be self-sufficient and able to be independent from the Bank and Companies / NGOs as their technical assistant. Eventually, they can perform its own management in line with the human resources capacity and capital owned.

## 5. CONCLUSION

Strategies that can be conducted to incarnate advanced MSME and play an important role in the national economy are: the expansion of funding sources for MSME, priority based on market opportunities, development of education and training for MSME to improve the quality of human resources in production technology, management, marketing and entrepreneurship, as well as development of appropriate technologies to improve the production and provision of information.

Cooperative and MSME empowerment strategy should be carried out with the involvement of stakeholders such as government agencies, educational institutions, NGOs, banking and business associations. The pattern of this synergic relationships between the stakeholders will determine the success of cooperatives and MSME empowerment.

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