

COOPERATIVE AS AN INNOVATION AND SUSTAINABLE MEMBER'S BUSINESS COMPETITIVENESS CENTRE

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Abstract: In order to achieve a sustainable competitive advantage, a cooperative must innovate. Without innovation, the cooperative will be knocked out of the competition. Instead, for the cooperative that are able to innovate continuously, then it will be able to dominate the market, namely through: innovation and new product, process or managerial development. Innovation can contribute to competitive advantage of cooperative through shared contributions on customers' satisfaction such as the creation of value added and value in use. Innovations themselves include: product innovation, process innovation and managerial innovation. The research hypothesis state that there is a relationship between Cooperative's performance and it's innovation. New products will help seize and retain market share and improve profitability.

Efforts to create and preserve competitive advantage of Cooperatives can also be done through increasing and maintaining Cooperative performance. Cooperative performance measurement can be done through financial and non-financial measurement. Financial performance can be measured through the return on sales and profitability, while the growth of non-performance financial can be known through levels of satisfaction of the Cooperative members. This research aims to examine more deeply about what factors that should be Cooperative's priority in order to achieve its' excellence performance, innovation and what it has to be done to promote its' members, especially in performing the functions and role of Cooperative as a center of innovation and excellence for it members and what strategies should Cooperative do to reach it member business competitiveness center and sustainability.

Key words: *Cooperative, sustainable, member's business competitiveness and innovation center*

INTRODUCTION

To survive in today's turbulent hypercompetitive environment, each business has to find ways to improve its competitiveness. Various ways have to be implemented to keep the business sustainable and successful. This is also the case with Cooperatives, especially Production Cooperatives, in Bandung and West Java in particular, and in Indonesia in general.

A Cooperative is basically an institution designed to provide priority services for its members as the owners and main costumers.

In a larger scale, the scarcity of international-scaled or globally competitive Cooperatives in Indonesia is indicated by the fact that there is only 1 (one) Indonesian Cooperative listed in the global 300 best Cooperatives of ICA version [1], reflecting that national Cooperatives are

generally not prepared to face the global competition.

In addition, more specifically, Cooperative institution as one of the national economic pillars has not prepared a specific programme that is focused on its business development, mainly in relation to two classic internal aspects, i.e. capital and management.

According to Ropke [2], a Cooperative has several advantages, such as:

- a) Having dual identity, i.e. members of the Cooperative are the owners and the main customers/buyers.
- b) Synergy among the members in the decision-making process, profit-loss sharing in order to achieve the Cooperative's economy of scale.

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- c) Specialization/division of functions among the Board of Management, Board of Supervisors and Business Unit Managements.
- d) Promoting priority members' programmes.
- e) Providing sustainable education for the members, the Board of Management, the Board of Supervisors and Managers of the Cooperative.

In reality, the above advantages are not enough. In the opinion of Peter Davis and Edgar Parnell (2002) [3], nowadays in several countries, most of cooperatives are faced with problems leading to decreasing competitiveness. This is supported by Zangwill [4] who argued that in creating a sustainable competitive advantage, a company must innovate. Otherwise, the company will be eliminated from competition. On the other hand, a sustainably innovative company will be able to dominate the market.

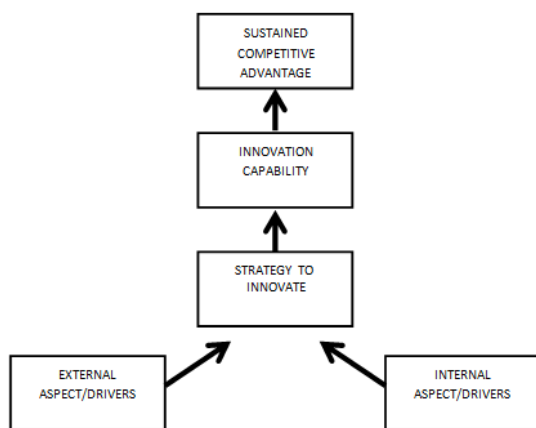
LITERATURE STUDY

1. Innovation Concepts

Various studies have analysed the relationship between innovation activities and competitive advantage based on four things [5], namely: (1) imitability, (2) innovation that accurately reflects the market reaction, (3) innovation that allows for timing exploitation, (4) capability and technology based innovation. The four things will make the company excel in competition.

Spacapan and Bastic [6] have proposed a framework of thinking to explain the relationship between innovation capability and sustained competitive advantage as can be seen below.

Figure 1. Strategy and Its Alignment with Innovation Capability and Sustained Competitive advantage



Source: Gabrijela Leskovar-Spacapan and Majda Bastic [6]

Innovation may contribute to competitive advantage through various contributions to

customers such as product innovation, process innovation, and managerial innovation. Research shows that there is a relationship between market performance and product [7]. New products will help in winning and retaining the market share and in increasing the profitability.

The organization's resources and capabilities are the main capital to drive the value and cost in positioning customer's advantage and to defend against competitors. High value and low cost will result in superior market position for the company.

Retaining the customers and preventing imitations will create a defensible market position. So, superior and defensible market position will lead to a sustainable competitive advantage.

Business managers evaluate and choose strategies that they think can make their businesses work. A business becomes successful because it has a relative advantage over its competitors. The strategy that encourages the company to be oriented towards differentiation or low cost. Therefore, it is reasonable for members of the organization to develop a clear understanding of the company's priorities. In addition, it is likely that the company will experience higher profitability compared to its competitors that are not oriented towards differentiation or low cost.

Many studies based on the experience of many other businesses indicate that the highest level of profitability is found in businesses that have both types of competitive advantage at the same time.

2. Competitive Advantage Concepts

According to Lamb and Hair et al [8], competitive advantage is a set of unique features of a company and its products that are perceived by the target market as significant and superior to those of the competition. There are two types of competitive advantage [9], namely cost advantage and differentiation advantage.

Dess, Gregory G, Lumpkin G., and Eisner, Alan B [10] argued that in order to create and maintain competitive advantage, a company should implement a comprehensive or strategic Management.

The essence of this management is to know why a company can achieve better performance relative to other companies. Therefore, the leader of the company should be able to determine how the company can compete with a sustainable advantage. This means focusing on the fundamental question: "How can we compete by creating a competitive advantage in the market, not merely due to uniqueness and value, but also difficulty for competitors to imitate or substitute (barrier to entry)."

According to Thomson and Stricklan [11], strategic management refers to managerial processes that include developing a strategic vision, formulating goals, preparing strategies, implementing executions and initiating corrective adjustment at all times.

Michael Porter [12] stated that sustainable competitive advantage is only possible through effective operations and activities that cannot or are difficult to imitate by competitors.

RESEARCH OBJECTIVE

The objective of this research is to carry out an in-depth review of innovation that Cooperative as a Centre of Innovation has made in managing its business together with its members, the factors that Cooperative should prioritize to achieve its competitiveness, and performance that Cooperative has achieved in supporting its business sustainability.

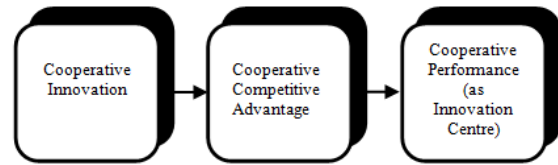
RESEARCH METHODOLOGY

This research is a survey of 11 Cooperatives including Production Cooperative, Consumer Cooperative, and Multi-Business Cooperative in West Java.

Singarimbun and Efendi [13] defined survey method as a study that takes samples from one population and uses questionnaires as data collection instruments. This research is verificative in nature because the hypothesis is tested based on primary data analysis. Primary data were collected through direct and structured interviews, on the basis of questionnaires, with 275 respondents including Board of Management, Board of Supervisors, Managers and members. Furthermore, observations and in-depth interviews were also conducted with informants. Secondary data were obtained through study of literatures and documents/reports of Annual Meeting of Members.

In addition, this research also used a method to develop the social capital of Production Cooperative's members through Focus Group Discussion (FGD), mainly to equate perceptions and map problems of business, to strengthen the Cooperative's function as Centre of Innovation, learning and cooperation media. Field observation was carried out to closely observe the business operations of each member. In-depth interviews were conducted with individual members to explore perceptions of the Cooperative's existence.

Figure 2. The Relation between Cooperative's Innovation and Cooperative's Competitive Advantage and It's Implication Toward Cooperative Performance



FINDINGS AND DISCUSSION

To achieve a sustainable competitive advantage, a cooperative should innovate. Without innovation, a cooperative will be eliminated from competition. On the other hand, the Cooperative that is sustainably innovative will dominate the market.

Innovation may contribute to the cooperative's competitive advantage through various contributions to its customers such as the creation of value added and value in use. Innovation includes Product Innovation, Process Innovation and Managerial Innovation.

Research showed the correlation between market performance and product [7]. Innovative products help in attracting new customers, securing market share, and increasing profitability.

In creating and maintaining its competitive advantage, a cooperative should also implement three on going processes, namely analysis, decision and action.

Cooperative's performance can be measured through financial and non-financial performance measurements. Financial performance measurement may include return on sales, profitability, sales growth, work productivity improvement, and production cost improvement. Non-financial performance may be found out from the level of members' satisfaction.

Figure 3 Innovation variable

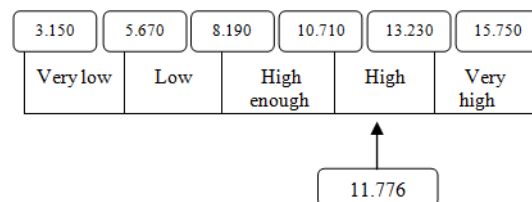


Table 1 the Average Score of Innovation Variable

Statement	Total Score Variable
Product	762,4
Process	806,2
Managerial	786,6
Average	785,06

As a result from the respondent answer, for these 3 indicators as determinant factors for Innovation variables, seem that **Process** indicator has the biggest score, followed by **Managerial** and then **Product**.

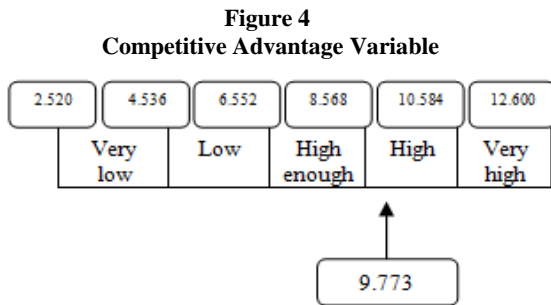


Table 2 the Average Score of Competitive Advantage Variable

Statement	Total score Variable
Differentiation	754,75
Focus	815
Price	889
Cost	868,33
Average	831,77

As a result from the respondent answer, for these 4 indicators as determinant factors for Competitive Advantage variables, seem that **Price** indicator has the biggest score, followed by **Cost** advantage, **Focus** and then **Differentiation**.

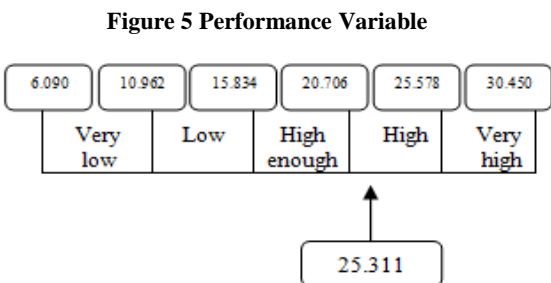


Table 3 the Average of Score Performance Variable

Statement	Total Score Variable
Organization	898,06
Member service	848.33
Collaboration	853
Financial	813,33
Average	853,18

As a result from the respondent answer, for these 4 indicators as determinant factors for Performance variables, seem that **Organization** dimension has the biggest score, followed by **Collaboration**, **Member Service** and then **Financial**.

CONCLUSION

This research is an in-depth analysis of factors to be prioritized by Cooperatives in order to achieve their competitive advantage, what kind of innovation that Cooperatives have made in managing their businesses to deliver optimal services to their members, mainly with respect to their roles and functions as Centre of Innovation and Excellence for businesses of their own and members, and what kind of strategy that Cooperatives have done and should do to support their business sustainability.

Within the research location, the Cooperatives have performed their roles as Centre of Innovation and have been successful in improving the sustainable competitive advantage of the members' businesses as indicated by a lot of innovative products produced by their members, which have been launched to the market through Cooperatives and Cooperatives have also managed to function as forum for their members to improve their knowledge, expertise, skills necessary in creating the value of their new products by routine discussion, coordination and intensive interaction and transaction with the Cooperatives.

Through innovation, members found that their competitive advantage and bargaining position.

Cooperatives innovative products have also inspired other Cooperatives' members to perform product development. Therefore, it shows that Cooperatives are very beneficial and have significant roles in performing their function as Centre of Innovation to maintain and improve businesses sustainability of their members.

In relation to the Cooperative's function in improving welfare of its members in particular and public in general in relation to the overall improvement of economy. In this regard, Elena [14] suggests that promotion of cooperative activities and movements is a priority. It is necessary to improve the image of the cooperative through adequate publicity and education. The potential of cooperative members and cooperative management cannot be ignored either. In addition, high-quality education for members and employees is a good and very valuable investment. Operationally, the first key factor of cooperative launch is the establishment of a stable system for the purchase and marketing of its member products.

The analysis of 275 respondents including 210 members and 65 managers of cooperatives indicates that the path coefficient for cooperative innovation variable (X) and competitive advantage variable (Y) is 0.415, which is significant as indicated by the P value marked *** of $\alpha = 1\%$. This shows a strong and meaningful correlation between cooperative innovation (X) and competitive advantage (Y). It means that if a cooperative is able to create an innovation or to innovate or to create a

value, it will bring a significant impact on the improvement of its competitive advantage, so that the cooperative will become more competitive.

The impact of competitive advantage variable (Y) on cooperative performance (Z) has a path coefficient of 0.615 and significant as indicated from the P value marked *** of $\alpha = 1\%$. This shows a strong and meaningful correlation between competitive advantage (Y) and cooperative performance (Z). It means that if a cooperative is able to improve its competitiveness, it will bring a strong impact on the improvement of its performance. Therefore, innovation plays an important role in improving competitiveness and has a string implication on the improvement of the cooperative performance.

AUTHOR'S CONTRIBUTION

Dr. Sutisna, S.E., MSi and Sri Djatnika Sya'diah, S.E., MSi developed the idea and had an important role in a result and material section. Dr. Asep Mulyana perform the statistical analysis. Dr. Sutisna, S.E., MSi, Sri Djatnika Sya'diah, S.E., MSi and Dr. Asep Mulyana, S.E., MCE perform the discussion.

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