Available online at https://ejournal.corespub.com/index.php/ijhlp/index

International Journal of Humanities, Law, and Politics

e-ISSN: 3025-0536

Vol. 1, No. 4, pp. 70-74, 2023

Evolution of Cooperative Models: A Comparative Analysis of Traditional Cooperatives (TC) and New Generation Cooperatives (NGC)

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Abstract

Cooperatives as membership-based economic entities have experienced an evolution from the traditional model (TC) to the new generation model (NGC). TC is known for its social orientation and simple structure, but often experiences limited capital and difficulty adapting to modern business dynamics. Responding to these weaknesses, NGC comes with a business model that is more open to external capital, professional management, and full supply chain penetration. Even though it provides significant added value, NGC is faced with challenges in maintaining the social values of cooperation and relationships between members. This article analyzes the comparison between TC and NGC, highlights the advantages and disadvantages of each model, and formulates the future development direction of cooperatives that integrates the positive elements of both models. The results of this research provide a basis for formulating recommendations for cooperative development in the future. It is recommended that cooperatives adopt a flexible business model, combining traditional and modern aspects. The importance of maintaining cooperative social values is in line with increasing efficiency and competitiveness. Efforts are needed to increase member literacy in terms of business management, and cooperatives need to build strategic partnerships with external parties to support growth and innovation. It is hoped that the implementation of these recommendations can lead cooperatives towards a sustainable future and provide maximum benefits for their members.

Keywords: Cooperatives, Traditional Cooperatives, New Generation Cooperatives, Business Models

1. Introduction

Cooperatives are a form of business entity that is managed democratically to improve the welfare of its members (Fulton & Hueth, 2009). This concept is in line with the definition of cooperatives in Law no. 25 of 1992 in Indonesia, which describes cooperatives as business entities that give priority to the interests of members, based on the principles of the people's economic movement. As a people's economic movement, cooperatives grow and develop by promoting the values of family and mutual cooperation, which are the main foundation for achieving shared prosperity.

The historical journey of cooperatives reflects their important role in supporting the people's economy and realizing social values. However, in the modern context, technological developments, especially information technology, have a major impact on the dynamics of cooperatives, especially agricultural cooperatives. Significant changes in consumer demand and behavior modify agricultural product consumption patterns, where raw products are no longer sold and consumed directly, but are processed into various processed products such as powdered milk, condensed milk, cheese, yoghurt and other processed products.

Analysis carried out by Stofferahn (2014) shows that this change in consumption covers various sectors, such as cocoa beans which are processed into chocolate candy, pasta and various chocolate products, as well as coffee which is processed in various variants. In fact, agricultural products such as meat are also undergoing a transformation into processed products. All of these changes create a need for cooperatives that are able to adapt to changing markets and consumer needs.

Traditional cooperatives adapted to these changes by changing their business model, selling raw agricultural products into processed products (Onumah et al., 2007). This transition gave birth to the concept of a new generation of cooperatives or what is known as new generation cooperatives (NGC). This new generation of cooperatives is expected to be able to face rapidly developing economic and technological challenges, while still maintaining the values of family and mutual cooperation as an integral part of the cooperative's identity.

In the context of cooperative development, currently there are two types of cooperatives that are growing rapidly, namely traditional cooperatives and new generation cooperatives (New Generation Cooperatives or NGC) (Novkovic, 2008). Traditional cooperatives are generally established with the aim of serving the needs of their members regarding certain goods and services, with a non-profit principle. On the other hand, new generation cooperatives are more oriented towards business and profit aspects (revenue-driven cooperatives) (Chaddad & Cook, 2004).

The differences in fundamental characteristics between traditional cooperatives and new generation cooperatives are interesting to study in more depth. Hansmann (1999) notes that cooperatives as a business model are unique compared to other forms of business entities, and this results in unique internal and external challenges for cooperatives. The debate around the advantages and disadvantages of traditional cooperatives versus new generation cooperatives is often the focus of contemporary studies on cooperatives.

Although each type of cooperative has its advantages and disadvantages, comparative studies between the two are still lacking, especially in Indonesia. Therefore, analytical studies comparing traditional and new generation cooperatives from various aspects are very important to obtain a more comprehensive understanding.

Interestingly, historical records show that the concept of new generation cooperatives began to emerge in the 1970s in Minoseta, USA, and continued to develop in the 1980s, 1990s, until now in 2023. NGC is a form of cooperative that has significant differences with traditional cooperatives developing in Indonesia. This new generation of cooperatives has not been fully implemented or thought about in the context of cooperatives in Indonesia until now, and the potential for its development is an interesting inspiration. NGC's changes and differences do not only lie in its concept, but also involve organizational and management innovation and other characteristics that create its own identity.

Therefore, this research will describe and analyze the changes and differences in new generation cooperatives (NGC) from various aspects, including basic concepts, organizational innovation, management, and other distinctive characteristics. Through an in-depth understanding of the characteristics of new generation cooperatives, it is hoped that this research can make a significant contribution in developing insight into the evolution of cooperatives amidst continuously developing economic and technological dynamics.

Several comparative studies between traditional and new generation cooperatives in other countries include Fulton & Hueth (2009) in the United States and Mendelson et al. (1989) who examined the main principles and characteristics of new generation cooperatives and differentiated them from traditional cooperatives in the United States. Both studies highlight the factors influencing the conversion of traditional cooperatives to new generation cooperatives as well as the differences in the principles and key characteristics of the two forms of cooperatives. Thus, there is an opportunity to conduct a similar study in Indonesia to gain a more comprehensive understanding of the internal and external dynamics surrounding both forms of cooperatives in the country.

2. Materials and Methods

This research adopts a content analysis approach to examine the differences between traditional cooperatives (TC) and new generation cooperatives (NGC), as well as their potential in Indonesia. A reference study was conducted on the new generation of cooperative literature developing in the European Union, United States, Australia and New Zealand. Analysis of variables and indicators involves an in-depth understanding of the changes required in the cooperative's organization, management, finance, marketing, and membership.

The results of these analyzes were synthesized to identify key differences between NGC and TC. Focus is placed on innovation of the overall cooperative concept, which is considered a key differentiating element. This study attempts to provide a comprehensive picture of how NGC can provide more adaptive solutions to market changes.

In addition, this research not only explores the differences between the two types of cooperatives but also analyzes the potential for implementing NGC in Indonesia. Factors such as Indonesia's economic, social and regulatory conditions are taken into consideration in evaluating the extent to which the NGC business model can be implemented effectively in the Indonesian context. By using this approach, it is hoped that this research can make a significant contribution to understanding the dynamics of new generation cooperatives and considering their relevance as an innovative business model in Indonesia.

3. Results and Discussion

3.1. New Generation Cooperative (NGC) Concept

The term New Generation Cooperatives (NGC) refers to the cooperative model that emerged around the 1970s in the United States. NGC was born as a response to major changes in the industrial revolution and the industrialization process in the agricultural sector. These changes include the transformation of consumer preferences and demands, which are shifting from primary or raw agricultural products to derivative, semi-finished and processed products (University of Western Australia, 2009).

Before the emergence of NGC, existing cooperatives were generally first generation cooperatives or traditional cooperatives. These cooperatives usually focus on selling raw agricultural products such as fresh milk, meat, wheat, corn and other agricultural products. However, the added value provided to members of traditional cooperatives is relatively small. In the 1970-80s, there was a significant shift in consumption patterns and large-scale agricultural industrialization occurred. Agricultural products are no longer marketed in raw form, but are further processed into food and beverage products with high added value. Examples of these products include powdered milk, cheese, butter, smoked meat, sausages, flour, cooking oil and a number of other processed products.

New Generation Cooperatives emerged in response to these changes by adapting their business models. NGC not only sells raw agricultural products, but focuses more on further processing, creating greater added value for its members. This concept allows cooperatives to adapt to changing consumption trends and technology, making it a more dynamic business model and responsive to changing market needs. In doing so, the NGC creates new opportunities for economic growth and prosperity for its members in an era of rapid agricultural industrialization.

In the midst of this paradigm shift, NGC emerged as a new generation cooperative that not only bridges member farmers with added value from processed products, but also empowers them to become direct owners in the downstream supply chain. Through the establishment of modern agricultural product processing factories and the implementation of the membership principle, farmers can enjoy the added value of their products without losing control over the supply chain.

Traditional cooperatives, which previously were only able to offer limited added value to farmers, feel left behind by modern corporations. NGC empowers farmers as share owners, ensuring that most of the added value is enjoyed directly by farmer shareholders. This concept not only provides a practical solution to changing consumption trends, but also overhauls the more static traditional cooperative paradigm.

The influence of the NGC concept is not limited to the United States; it spread to Europe, Australia, New Zealand and other countries. The presence of NGC marks a new era in the development of global cooperatives, shifting the dominance of traditional cooperatives that has lasted for more than a century (1840-1980s). The revitalization of cooperatives is becoming increasingly real with efforts to re-engineer financial and organizational systems. NGC not only brings innovation in the business model, but also brings total changes in organization, finance, operations, and the distribution of added value for members.

Thus, the conclusion of these changes is that the presence of the NGC business model marks the new rise of global cooperatives, entering the second generation phase. This innovation is not only a response to the weaknesses and criticisms addressed to traditional cooperatives, but also as a benchmark for future cooperative development, including in Indonesia. The NGC model provides inspiration for the development of cooperatives that are more dynamic, responsive, and able to win competition in the ever-changing modern era.

3.2. Difference Between NGC and TC

The concept of New Generation Cooperatives (NGC) began to receive widespread attention in the 1970s, especially in the United States, as an effort to develop cooperatives in response to various weaknesses faced by traditional cooperatives (TC) (Franken & Grashuis, 2023). Traditional cooperatives are often identified as organizations that are social in nature and less flexible in facing changing times. TC is often considered limited in terms of capital and implements a relatively closed membership system. The distribution of remaining business profits to members is also considered less than optimal in empowering and improving members' welfare.

The differences between Traditional Cooperatives (TC) and New Generation Cooperatives (NGC) reflect the evolution of cooperatives in facing the challenges of the times. When it first became famous, the term New Generation Cooperative (NGC) created doubt and confusion, especially in the context of cooperatives in Indonesia, which is generally dominated by TC. This shift reflects a global transformation in the cooperative paradigm, which is changing from traditional cooperatives to new generation cooperatives (NGC). TC's limitations in terms of flexibility, complexity, unprofessional management, as well as difficulties in raising capital and closed membership, were overcome with the birth of NGC. Cooperatives are changing into entities that are more open to investment, have more professional management, and are able to compete in the ever-changing business world.

This transformation includes financial, organizational, management and other indicators that make NGC able to adapt and compete in a dynamic business market. In TC, producers act as owners and supervisors of cooperatives with illiquid membership rights. In contrast, NGC brought significant changes where members not only act as users but also as financiers. This change involves managing additional capital for new investments without reducing member ownership and control rights.

The main differences between NGC and TC are reflected in four key differentiators identified by researchers. This involves the introduction of value-added processing, differentiated equity contributions, commodity supply obligations according to equity, and trading of equity shares and commodity supply rights. The NGC concept creates a new business model where members can become direct owners downstream of the supply chain, gaining added value from agricultural processing products.

In the context of a comparison between Traditional Cooperatives (TC) and New Generation Cooperatives (NGC), the NGC model can be considered an evolution that seeks to improve the inherent weaknesses of the TC model. There are several key aspects that differentiate the two.

First, NGC offers a profit-oriented or revenue-driven business approach, resembling business companies in general. This is in contrast to TC which tends to be slower and less responsive to modern market dynamics. In terms of capital, NGC adopts a more open approach by accepting additional capital not only from members, but also from investors outside members. This is designed to overcome the capital limitations often experienced by TCs. The flexibility of NGC's membership is also greater, creating room for more dynamic growth.

The system for distributing remaining operating profits at NGC also reflects significant changes. In contrast to TC which is only based on member transactional participation, NGC considers capital contributions made by members. Thus, NGC can provide higher returns, increase members' motivation, and in turn, improve their well-being. In terms of management and organization, NGC adopts a modern and open system that allows it to be more agile in following the latest industry trends. Innovations in the NGC business model made the cooperative more competitive, overcoming the perception that the TC model was outdated.

Overall, this comparison highlights the significant transformation brought about by NGC as a second-generation cooperative. By correcting the weaknesses inherent in the previous model, NGC emerged as a cooperative business model that was more adaptive, responsive, and able to compete in an ever-changing business environment.

The significance of this innovation is reflected in efforts to re-engineer financial systems and cooperative organizations. NGC provides comprehensive updates in the areas of organization, finance, operations and value-added sharing for members. In conclusion, the NGC business model marks the rise of global cooperatives in the second generation, provides a solution to the weaknesses of traditional cooperatives, and becomes a reference for the development of cooperatives in the future, including in Indonesia.

3.3. Business Model Comparison Between Traditional Cooperatives (TC) and New Generation Cooperatives (NGC)

Traditional Cooperatives (TC) and New Generation Cooperatives (NGC) exhibit fundamental differences in their business models, reflecting their distinct approaches to organizational structure, supply chain engagement, capital structure, membership dynamics, and management practices.

TC is typically associated with socially oriented cooperatives characterized by a simple and straightforward business model. These cooperatives primarily operate downstream in the supply chain, addressing the basic needs of their members for specific goods and services. For instance, a TC formed by cattle breeders might focus solely on aggregating and selling fresh milk from its member farmers without engaging in additional processing. However, the added value derived from these traditional cooperative activities remains relatively limited (Zhang, 2004).

In stark contrast, NGC embraces a modern business model that mirrors practices found in investment companies. NGC takes an aggressive approach by extending its reach from upstream to downstream in the supply chain, enabling its members to capture maximum added value. Collaborating with contemporary processing companies, NGC empowers its members to oversee the production and marketing of various agricultural derivatives, such as powdered milk, cheese, and butter. This strategic shift allows NGC to unlock significantly greater profit margins compared to TC.

Capital structure serves as another key point of differentiation between TC and NGC. TC relies predominantly on its own capital generated from members, often resistant to external capital contributions. On the contrary, NGC adopts an open stance by welcoming capital deposits from a diverse array of sources, including both members and external public investors. Membership dynamics also distinguish TC from NGC. TC tends to adopt an exclusive and closed membership approach, imposing stringent requirements for individuals or entities to qualify. Conversely, NGC prioritizes openness and flexibility, facilitating continual expansion of its member base.

In terms of management, TC structures often appear rigid and bureaucratic, featuring a vertical organizational hierarchy that may struggle to respond effectively to market dynamics. NGC, on the other hand, embraces a modern management concept characterized by a team of seasoned professionals who demonstrate agility in formulating strategies and making crucial business decisions. This disparity in business models positions NGC as a more adaptive, agile, and competitive entity compared to the perceived outdated nature of TC. The innovative investment-style business model introduced by NGC serves as a strategic response to inherent challenges faced by traditional cooperatives, including limitations in capital accumulation and profitability distribution to members.

Traditional Cooperatives (TC) and New Generation Cooperatives (NGC) have significant differences in business approaches and operational models. TC, which has developed over time, is known for its strong orientation towards social values and cooperative principles. The main focus is to meet members' needs through small-scale economic activities.

The advantage that TC has lies in the close relationships between fellow members. The organizational structure and management tend to be simple and easy to understand by its members, the majority of whom come from farmers or MSMEs. However, TC received criticism for its limited capital, slow business growth, and difficulty adapting to modern business models and intense competition. The added economic value for its members is considered limited. In response to TC's weaknesses, the New Generation Cooperative (NGC) concept emerged which offers a more modern and aggressive business model. NGC is open to capital contributions from various parties to expand its business and investment scale. The NGC business model is more proactive in seeking opportunities throughout the supply chain, from upstream to downstream, with the aim of maximizing added value for its members.

However, NGC also has disadvantages. NGC's business model, which adopts investment company practices, is considered to have obscured the social values and service orientation to members that should be the hallmark of cooperatives. Relationships between members tend to be transactional and tenuous. Overall, both TC and NGC have their respective advantages and disadvantages. Future cooperative development should take the positive sides of both models, integrating cooperative principles with modern business strategies. In this way, cooperatives can remain sustainable and provide maximum benefits for their members while still adapting to changing times.

4. Conclussion

In the context of a comparison between Traditional Cooperatives (TC) and New Generation Cooperatives (NGC), it can be concluded that both have different business approaches and operational models. Traditional cooperatives, with a strong social orientation, focus their activities on meeting members' needs through small-scale economic activities. The advantages lie in the close relationship between fellow members, simple organizational structure, and easy understanding by members. However, limited capital, slow growth, and difficulty adapting to modern business are criticisms of this model.

In response to the shortage of TCs, New Generation Cooperatives (NGC) emerged with a more modern business model. NGC is more open to external capital, applies professional management, and actively seeks opportunities throughout the supply chain. NGC's strength lies in its ability to maximize added value for members through upstream and downstream penetration, as well as receiving capital from various parties.

However, NGC also has shortcomings, especially in blurring the social values of cooperatives and making relationships between members more transactional. Therefore, this comparison shows that both TC and NGC have their respective advantages and disadvantages. Future cooperative development should take the positive side of both, integrating cooperative principles with modern business strategies. In this way, cooperatives can remain relevant, sustainable and provide maximum benefits for their members in facing market dynamics and changing times.

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