

# A COMPARISON OF THE COOPERATIVE STRUCTURE IN INDONESIA AND HUNGARY

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## **ABSTRACT**

Agriculture cooperatives have a unique organization structure in which the main focus is to benefit the members who act also as owners. However, organizational and management problems exist in agriculture cooperatives. In some European countries, the formation of agricultural organizations has made a significant contribution to the development of agriculture over the last century. These cooperatives were usually initiated by small-scale farmers, as a response to their weak position in the market. By joining forces, farmers have the advantage of improving their position to obtain better prices and services for the purchase of inputs and the marketing of farm produce. In developing countries, the experience has been more mixed. Most failure stories usually come from the misuse of the cooperative concept for ideological or political purposes, resulting in poorly developed or unsustainable cooperatives. However, current trends in market-oriented reform, privatization, decentralization and participation, cooperatives are rediscovered as a suitable organizational structure for farmers to improve their livelihoods and welfare. Agricultural unions in which the members both participate and contribute can become powerful instruments for the development of the rural economy.

**KEYWORDS:** cooperatives, agriculture, organizational structure, issues

**JEL CODES:** O13, Q13, P13

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## **Introduction**

Cooperatives exist in Hungary and Indonesia which operate in rural and farm communities to help improve farmers' production and welfare. Given that the historical background of the development of farming cooperatives is different in Hungary and Indonesia, this article would like to address organizational structure issues that need to be considered. It starts with questions such as to what extent organizational structure, along with the management, is applied in agricultural cooperatives in Hungary and Indonesia. In order to find out the organizational structure issue, the approach is based on the historical background that built the foundation for the establishment of cooperatives in both countries.

Today, there are approximately 212,135 registered cooperatives in Indonesia, and an estimated 15% of the country's population is a member of a cooperative. It is estimated that 30% of the existing cooperatives are inactive due to issues related to limited knowledge on cooperative governance and management, as well as low member participation.

There were periods in the history of the past 100 years of Hungary's agriculture when it was the leading sector of the national economy and it provided a level of food supply for the population well above that prevailing in the majority of European countries, and a considerable surplus was sold on export markets. Today, the impact of restructuring of the agricultural sector today has resulted in a wide range of production units, the small (part-time) family farms dominating the number and production volume. Only a small percentage of the output of the small farms entered the market. A new group of full-time private commercial farms is gradually emerging, although a malfunctioning land market reduces the function of the agriculture cooperatives.

Despite the advantages of the cooperative organizational structure, there are factors that make agriculture cooperatives unable to function as an economic and social entity. As in other business organizations, organizational and management problems exist. By using the agency theory and organizational structure approach, this article compares agriculture cooperatives in Indonesia and Hungary to find out how both countries manage the organizational and management problems in the existing agriculture cooperatives.

## **Review of Related Literature**

The approach starts from basic ideas of cooperatives. Review of related literature from Adrian Jr. and Green (2001), in which they cited previous works from Kraenzel, Fulton and Keenan, Webb, Merlo, Cook, Meyer and Poorbaugh about the structure of agricultural cooperatives. According to Adrian Jr. and Green (2001), cooperatives have been and continue to be an essential aspect of rural and farm communities through the provision of services, credit, farm and home supplies communities from markets or outlets for farm products (Kraenzel, 1996, p. 37; 1998, p.4). Many agricultural cooperatives are small and lack sufficient economies of size and scale to effectively compete with the often larger investor-owned businesses (Fulton and Keenan, 1997, p. 35). Nevertheless, Webb (1990, p. 56) suggests that cooperatives may be the single most cost-effective structure farmers can implement to improve their economic status. In fact, numerous farmers are evaluating and forming unions to enhance their financial plight. Also, existing agricultural cooperatives are using mergers, consolidations, and acquisitions to improve their competitive position (Merlo, 1998).

In many ways, cooperatives are similar to other businesses, especially regarding facilities, functions, and business practices. Both cooperative and corporate structures elect a board of directors that establishes a vision and develops broad policies for the organizations, and both structures hire a manager or management team to oversee daily operations and implement these policies. There are, however, differences in principles, goals, and organizational structure that make managerial roles in a cooperative distinct from those in an investor-owned firm. Cook (1994, p. 42) notes that the duties of some managerial roles in cooperatives are not only significantly different but are often more difficult than those of investor-oriented businesses. Cook points to such role examples as conflict resolution, resource allocation, information spokesperson, and leadership. Cooperatives also differ concerning purpose, ownership and control, and distribution of benefits. These differences relate to cooperative principles and include four traditional as well as three more contemporary principles. Traditional principles involve service-at-cost, financial obligation of member/owners, limited return on equity capital, and democratic control (Meyer, 1994, p. 2). Contemporary principles are described as user-owner (i.e., those who use the cooperative finance it); user-control (i.e., those who use the cooperative control it); and user-benefit (i.e., benefits are to be distributed based on the use of the cooperative).

These principles and the roles they play in the operation and success of the cooperative may lead to conflicts within the organization. Conflicts, mainly as related to ownership rights and member benefits, may occur among members, or between the board and management, or members and the manager and board (Cook, 1994, p. 47). To minimize conflict, it is essential that these parties have an understanding of cooperative principles and the contribution of these principles to the viable operation and success of the firm. Education and training of these individuals and groups are essential in this process (Poorbaugh, 1995, p. 64).

## **The Cooperative Structure in Indonesia**

The cooperative enterprise idea was first introduced in Indonesia during the Dutch occupation. It started as a Bank for Civil Servants, which is a savings and loan cooperative in Purwokerto, and was set up in 1896 to protect citizens from indebtedness to money lenders. There is a link between the Netherlands and Indonesia concerning cooperatives can be traced back to the first cooperative law which was introduced in Indonesia in 1915 and based on the Netherlands cooperative model. Then, in 1927, a revised law, primarily based on British-Indian model was issued. The first cooperative department was established in 1935, and this became a part of the Office for Cooperatives and Home Trade in 1939. At this time, cooperatives were primarily for financing, e.g. saving and credit, and most of the cooperatives were based on the island of Java. After the Japanese occupation and Indonesia's independence from the Dutch in 1945, the cooperative movement gained momentum. In 1945, article 33 of the Indonesian constitution explicitly mentioned cooperatives as fundamental to the national economy. The first Cooperative Congress was held in 1947, which decided to establish the national cooperative apex organization, today known as the Indonesian Cooperative Council (Dekopin). In 1958 a new cooperative law was issued, and in the period 1960-1966, the number of cooperatives expanded rapidly, however, they were highly politicized. The change of government in 1966 brought a strong reaction in favor of cooperatives. The cooperative law of 1967, known as the "Law on the Basic Principles of Cooperatives", made provision for independence. Cooperatives, apart from those in agriculture, were registered and audited by the government, but not actively promoted and it was viewed as government propaganda. The government directed cooperatives, known as KUD: *Koperasi Unit Desa* or VUC: *Village Unit Cooperatives*. These cooperatives (KUD/VUC) were viewed as fundamental

unions for agricultural development and were inseparable from the Indonesian food self-sufficiency program. The VUC was given responsibilities in farm credit scheme, agriculture input and incentives distribution, marketing of farm commodities and other economic activities. The government notably guaranteed both marketing and market price to encourage the growth of farm cooperatives. A research from Riswan, Suyono and Mafudi (2017), found that during the New Order or the Suharto regime from 1980 to 1990, VUCs experienced success, notably in financial performance. However, the success in that period was mainly caused by the monopolistic system in the VUCs in managing seeds and fertilizers. After the 1990s, the VUCs no longer had this monopolistic right, and they were unable to compete with modern businesses. As a result, the majority of VUCs went bankrupt, or could still operate, but with poor financial performance. Efforts from the regime to make VUCs as a viable instrument for initiating and implementing rural development failed. According to several previous research, there are some reasons for this failure. Corruption is one of them, also the lack of management capacity (human capital), were the facts that the incorporation of VUC is against cooperative principles. The government during that regime incorporated VUCs as their distribution vehicle to support green revolution program instead of a common economic need of the members. In addition, instead of enhancing the self-sufficiency of its members, the government granted VUCs all the equity capital, and members contributed a minimal amount or paid even nothing.

Year	Description
1896	Cooperative enterprise idea in the form of savings and loan cooperative
1915	The first cooperative law in Indonesia based on the Netherlands cooperative model ( <i>Verordening op de Cooperatieve Vereeniging</i> )
1927	A new cooperative law was passed based on the British Indian model
1935	The establishment of the first Indonesian cooperative department
1939	The first Indonesian cooperative department became a part of the Indonesian Cooperative Commission
1945	Indonesia's independence from Dutch colonialization; cooperatives are regulated by the National Constitution no. 33, article 1.
1958	In the wake of the Presidential Decree to reject attempts for a new National Constitution that focused more on capitalism, in which rules for cooperatives refer back to the National Constitution of 1945.
1967	The New Order regime: revision of the cooperative law in 1958 to include cooperatives as social functions.
1992	Re-establishment of the new cooperative law in State Law no. 25
2017	In 2015, the parliament proposed a new law to replace the 1992 State Law regarding cooperatives but failed. In effect, the 1992 State Law is still used as the base for cooperative regulations.

**Table 1. The timeline of cooperative regulations in Indonesia**

Source: Law of the Republic of Indonesia No.25 (1992, Suradisastira, K. (2006)

The current law in effect for cooperatives (No. 25/1992) was adopted in 1992. The law states that cooperatives, as pillars of the national economy, should possess certain characteristics such as:

1. Cooperative is a business entity consisting of persons and business activities by utilizing the capabilities of its members.
2. Cooperative principles are the base for cooperative activities. The highlight of the principles are (a) membership is voluntary, (b) democratic management, and (c) the distribution of remaining results of the operation (*Sisa Hasil Usaha – SHU*) is done fairly in proportion to a number of business services of each member.
3. Cooperative is a people's economic movement based on the principle of kinship. In the economic order of Indonesia, cooperatives are the economic strength that grows among the community as the growth of the national economy with the kinship principle.

#### 4. Cooperatives aim to prosper members in particular and the society in general.

In 2012, a new law was introduced to replace the 1992 law and should be implemented by the cooperatives by 2015, though some cooperatives disagreed with the changes and went to Constitutional Court. Some cooperatives argued that the 2012 law attempts to make cooperatives no different than corporations. The nature of cooperatives in Indonesia is somewhat unique as they are based on common principles, called *gotong-royong*, under which the welfare of members is prioritized, different to modern corporations which prioritize profit and income. This particular nature of cooperatives in Indonesia is considered essential for the preservation of the greater communal good. In the context of this nature, in a recent decision, the Constitutional Court has negated recent legislative developments on the management of cooperatives, especially under Law No. 17 of 2012 on Cooperatives (2012 Cooperatives Law). The Court has taken the view that the 2012 Cooperatives Law encourages cooperatives to adopt a model that ignores the constitutional basis for cooperatives and is therefore inconsistent with the 1945 Constitution. In conclusion, the Constitutional Court took the view that the 2012 Cooperatives' Law encourages cooperatives to blend in with limited liability companies. This approach may result in the destruction of the democratic spirit of cooperatives as an economic entity that is unique to Indonesia based on the *gotong-royong* principle. As a result, this new legislation was revoked; Cooperative Law number 25 of 1992 remains as the constitutional basis for cooperatives until a new regulation is introduced ([www.hukumonline.com](http://www.hukumonline.com)).

Figure 1 shows the number of cooperatives in Indonesia, and the earliest possible data that could be obtained is from 1967. In 1967, the number of cooperatives in Indonesia was 16,263 units nationwide, and over the years the graph showed an increasing trend and in 2015 the number of cooperatives in Indonesia reached 212,135 units. It shows that despite changes and developments in the cooperative law, the number of cooperatives are still increasing, which is a positive outlook.

In figure 2, the earliest data obtainable is only possible in 1967 and even then there were no data available for the number of active cooperatives. However, since 1997, there was already some documentation on the number of cooperatives nationwide. It shows that the trend is also increasing from 40,908 in 1997 to 150,223 in 2015, a total increase of 27.23%.

Figure 3 compares the capital, revenue and profit from operations of

cooperatives in Indonesia from 1967 to 2015. The capital in this case refers to internal capital (from members' contribution) and external capital (from third party loans and investments). The graph shows that capital and revenue have a significant increase over the years. Similar to figures 1 and 2, figure 3 also shows the data from 1997 as there is no obtainable data in 1967. Capital increased from 9 million IDR in 1997 to 242 million IDR in 2015, meaning that cooperatives are interesting for investors to invest. Revenue increased from 12 million IDR in 1997 to 242 million IDR in 2015, which shows that the business of cooperatives can generate a considerable amount of revenue. However, it is not the case for profit, which does not have a significant increase. In 1997 the profit was only 619,050 IDR and 17 million IDR in 2015, which is only 3.64%. It indicates that there may be a management problem in the cooperatives.

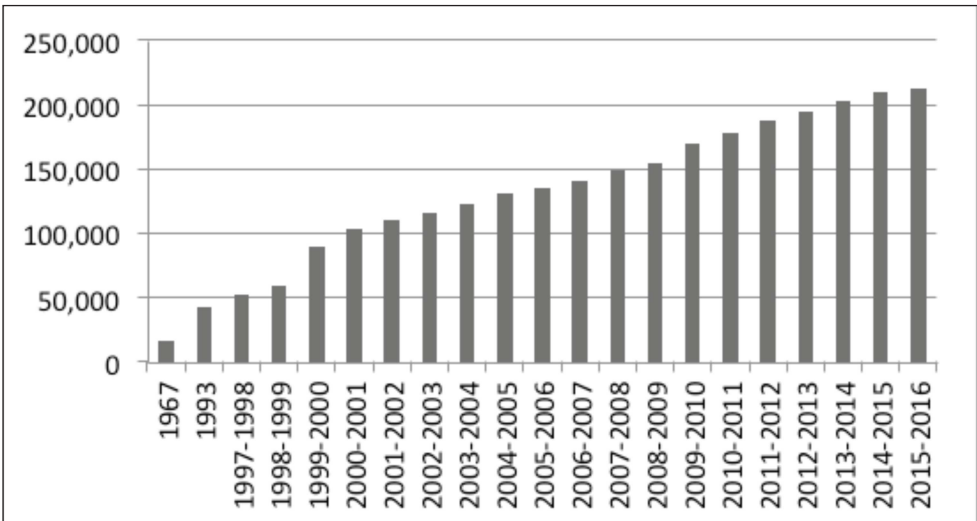
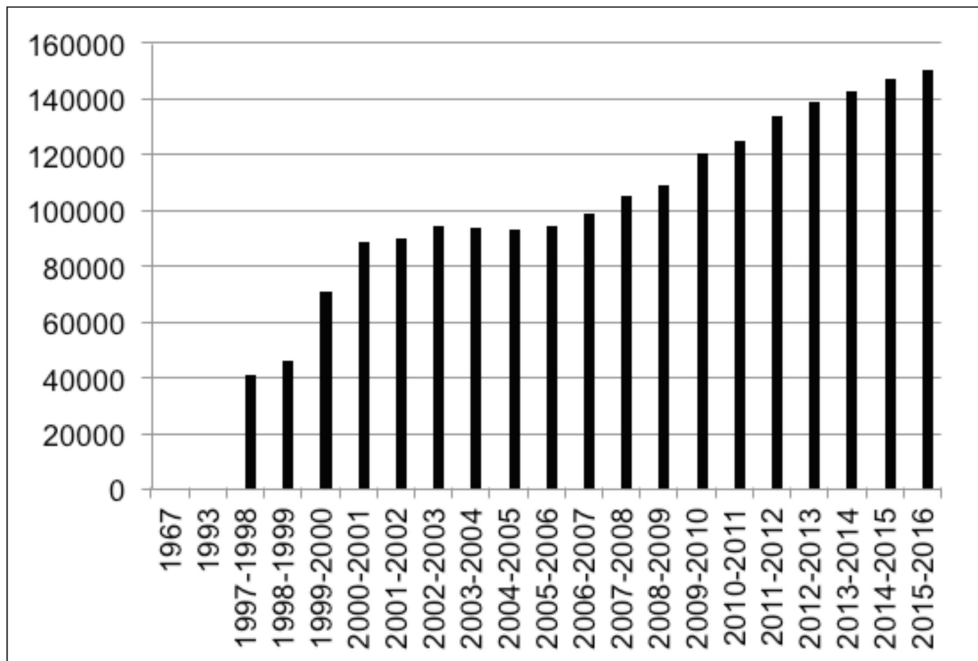


Figure 1. Number of cooperatives in Indonesia from 1967 to 2015 (in units)

Source: Indonesia Statistics Agency (Badan Pusat Statistik), 2017



*Figure 2. Number of active cooperatives in Indonesia from 1967 to 2015 (in units)*

*Source:* Indonesia Statistics Agency (Badan Pusat Statistik), 2017

Based on the historical background and recent developments from related literature, management practices in Indonesian cooperatives can be summarized as follows. An article from Ahsan and Nurmayanti (2006) stated that factors that make cooperatives fail are mainly the overall management, particularly the human capital. They mentioned the poor selection of cooperative members, the considerable number of non-participating members in the cooperatives, allowing a few dominant people to make decisions (not the members' decision as supposed to be in a cooperative organization), apart from bad financial management. All of these factors are the result of the lack of cooperative education in rural areas. These factors can be broken down into two sources, internal and external. From an organization point of view, the focus would be on the internal sources. In their book, Merrett and Walzer (2004) cited Egerstrom (2004), the internal obstacles known as the agency theory of cooperatives, consist of five components:

1. The free-rider problem; is the lack of incentive for members to invest in cooperatives. Members only invest as much as required, resulting

- in the cooperatives' dependency on external debt financing to provide additional capital.
2. Horizon problems; where members tend to support activities that maximize short-term goals rather than long-term goals.
  3. Portfolio problems; closely tie with cooperative activities to special interests of members, leading to difficulties for diversifying operations.
  4. Control problems; usually in largely diversified cooperatives, where the need for fast, business-like actions tend to tip the power to the management. Cooperatives that have shares in which the shares are not traded among members give owners little cause to monitor management decisions as they do not have a sense of belonging as "investors" or owners of the cooperative.
  5. Decision-making problems; usually faced by members of the cooperatives in monitoring management decisions, as some members become more influential and dominant in the decision making process.

## **The Cooperative Structure in Hungary**

In 1845, the first cooperatives were established in Hungary. These first cooperatives were mainly found in dairy and credit sectors. In the interbellum the cooperative entrepreneurship grew considerably, in almost every village a so-called "*Hangya*" -cooperative existed (Schilthuis and van Bekkum, 2000). According to Vizvári and Bacsí (2003), until 1945 large estates dominated the sector and beside them, smallholders existed. In 1945 the arable area of the former big estates was split up and distributed among the people of the villages. When the communist party took over the power in 1949, the first wave of "cooperativization" took place. The process was only partly successful as far as land and farm assets are concerned.

The government established at the end of the war the objective of radically changing land tenure. The parliamentary parties agreed on the dissolution of estates of landlords, churches, businesses and farmers who possessed more than 50 hectares. More than 3.2 million hectares were affected by the agrarian reform, of which 2.9 million hectares were arable land. A total of 642 thousand people received allotments, on the average approximately 3 hectares. The minimum allotment was 0.7 hectares, the maximum 8.6 hectares. Agricultural labourers and landless agricultural day-labourers living on large estates received the largest allotments, nearly 5 hectares each. Smallholders and small

farmers received only complementary allotments. Simultaneously with the allotments to individuals, on about 800,000 hectares state forestries and on about 300,000 hectares common pastures were established. Size structure of holdings as found by the census of agriculture in 1935 and that after the land reform is shown by table 3.

Year	Description
1845	The first cooperatives
1870	Trade law, cooperatives chapter
1898	Act on Economic and Credit cooperatives
1920	National Central Credit Union (cooperative), at the same time the cooperative headquarters for farmers and land tenants
1923	Act on the support of farmers' cooperatives
1927	Hangya Fogyasztási Szövetkezet ("Ant" Consumption Cooperative); 1,752 cooperatives, and 781,771 members. National representation of cooperatives in this period: the Association of Hungarian Cooperatives
1949	Soviet-type agricultural cooperatives ("Kolkhoz")
1959-1961	Second wave of "cooperativization"; the rise of household farms. Household farms can produce and sell to make additional income
1961-1990	Agricultural sector dominated by cooperatives. Workers are paid based on "labour units" but it did not work well due to financial motivations. In this period, the concentration of cooperatives were structured as follows: 1 village – more cooperatives 1 village – 1 cooperative More villages – 1 cooperative
After 1990	1st step: A law that allowed the members of the cooperatives to quit before a given deadline and required the properties to be assigned to the members. 2nd step: the "law of recompensation": the state issued vouchers at a much smaller value than the value of the lost property; the original owners were given these vouchers in proportion to the amount of their lost property.

**Table 2. The timeline of cooperative developments in Hungary**

Source: Közgazdasági Enciklopédia (1930), Zsohár, A. (2008)

Later in the development, as a result of the 1956 revolution, a large part of cooperatives were demolished. Between 1959 and 1961 the second wave of “cooperativization” took place. Then, between 1961 and 1990 the sector was dominated by cooperatives. However, in the end of the period, the cooperatives suffer losses, mainly from the agricultural activities. On the other hand, the industrial and service activities increased. When a new law on corporation was introduced in 1987, the industrial and service activities became independent corporations instead and separated themselves from the cooperatives, leaving the agricultural activities in the cooperatives. As a result, the majority of cooperatives fell into bankruptcy. The re-establishment of the market economy started in 1990 in Hungary. The first freely elected government made several attempts to demolish the cooperatives. These efforts have resulted in a farming structure mainly consisting of very small family farms. The success of the former Hungarian agriculture dominated by cooperatives was based on the following structural elements after 1961: Every cooperative farmed a large arable area, approximately 600-2,000 ha, or even more. The technology was adjusted to the size of the farmed land. A new concept of «household farming» was also set up in the country. The members of the cooperatives, besides working in the cooperative, also had a small arable land to farm on their own.

Vizvári and Bacsí (2003) also mentioned the shift after 1990 that completely changed the course of agricultural cooperatives afterwards. The coalition coming into power after the free elections in 1990 opposed the existence of the cooperatives on an ideological basis. Two legal ways were found to demolish them. The Parliament accepted a law, which allowed the members of the cooperatives to quit before a given deadline. The same law required that the properties, including machinery, of the cooperatives, must be «nominated», i.e. assigned to the members. If a member quitted the cooperative, the property automatically became his/her private property. A drawback of this process was, that complete sets of machines and tools, which had had a special practical value exactly because of their completeness, were split up, and distributed among several owners of small new farms who were not obligated to help each other. Thus the machinery sets lost their effectiveness, as none of the small new farms owned a complete technology. The second step to demolish the cooperatives was a so-called «Law of Recomensation». Many people had lost their properties during the communist regime. This law entitled cooperatives, or their inheritors for compensation caused by the loss. However, the formerly lost properties were not given back to the original owners. Instead, the state issued vouchers at a much smaller value than the value of the lost property, and

the original owners were given these vouchers in proportion to the amount of their lost property. All former big farms (cooperatives and state farms) were forced by the law to give up a specific portion of their land for this purpose. These lands were privatized on special auctions. As a result of these two laws, the cooperatives lost a significant part of their equipment and land. The farms created on the land bought for compensation vouchers are usually too small for efficient farming, and in many cases, the new properties were too small for any agricultural activity. Many owners are not residents in the village, or in the neighborhood of which the land is situated. The structure of the farm property system has been drastically changed from a system dominated by big farms, to a set of small farms. There are two crucial negative consequences of this change. First, the creditworthiness of the small, poorly equipped farms is practically zero. Therefore investments in agriculture drastically decreased. Second, the technology of farming has not been renewed at the appropriate time. Thus, the future competitiveness of Hungarian cooperatives is in jeopardy.

According to the Eurostat data, there are about 5000 cooperatives in Hungary. The share of cooperatives in agriculture is relatively high although their number is decreasing. Cooperatives which are connected to agriculture or to rural areas are active in retail (e.g. AFÉSZ-Coop Group), agricultural (e.g. POs, PGs and transformed “production type” cooperatives etc.) and credit sector (savings cooperatives). From the year of EU accession (2004) till 2009 the number agricultural cooperatives has decreased by 700.

There are three main types of agricultural cooperatives in Hungary:

1. “Production type” cooperatives (in Hungarian “TSZ”) which are most of the time multipurpose cooperatives as well and transformed many times due to the ever changing cooperative laws. With the exemption of some minor tax advantages, they do not get any support at present (2011).
2. Supply and Marketing Cooperatives (in Hungarian “BÉSZ”) organized on territorial bases (e.g. integrating more activities and marketing channels) which has not got any support at present (2011).
3. Marketing or “new”, western type cooperatives, like POs (in Hungarian “TÉSZ”) and PGs (in Hungarian “termelői csoport”), which are often single purposed ones focused on one marketing channel and got support from EU and/or national budget. These are mostly marketing and/or supply cooperatives which does not carry out production, but they supplement the farmers’ production activity.

As exhibited in table 3, the Hungarian population of agricultural holdings is dominated by two size classes: small holdings with less than 2 hectares of agricultural area, and farms with 50 hectares or more of agricultural land. Despite the fact that four out of five holdings (455 530) in Hungary fall into this category, holdings with less than 2 hectares of UAA were found to cover only 3 % of the Hungarian agricultural land in 2010. On the other end of the scale, farms with 50 hectares of agricultural land or more represented a marginal 2 % of the population of holdings (13 860) but were found to account for 75 % of the country's agricultural land (3.5 million ha) in 2010. This type of polarization of the agricultural structure has been observed in other eastern European countries and partially derives from the process which took place in the 1990s, when the restoration of the land property to the former owners or a division among the members of the agricultural cooperatives was implemented in many Eastern European Member States (Banski, J.). However, tables 3 and 4 are taken from the agricultural census in 2010 as a formal report, so there are limitations to discover recent developments.

Hungary	2000	2010*	Change (%)
Number of holdings	966,920	576,790	-40.3
Total UAA (ha)	4,555,110	4,612,360	1.3
Livestock (LSU)	3,097,540	2,483,790	-19.8
Number of persons working on farms (Regular labor force)**	1,464,670	1,143,480	-21.9
Average area per holding (ha)	4.7	8.0	69.7
UAA per inhabitant (ha/person)	0.45	0.46	3.4
*Figures on common land not included			
**For values on labor force reference years are 2003 and 2010			

**Table 3. Farm Structure, Key Indicators, Hungary, 2000 and 2010**

Source: Eurostat (ef\_kvaareg) (ef\_ov\_kvaa) (demo\_pjan) and FSS 2000 and 2010

		2000	2010*	Change 2010/2000 (%)
<b>Number of holdings</b>	Hungary	966,920	576,790	-40.3
	Közép-Magyarország	81,910	46,320	-43.5
	Közép-Dunántúl	90,860	52,560	-42.2
	Nyugat-Dunántúl	101,870	61,110	-40.0
	Dél-Dunántúl	124,420	74,960	-39.7
	Észak- Magyarország	135,640	73,560	-45.8
	Észak-Alföld	221,740	143,910	-35.1
	Dél-Alföld	210,640	124,370	-41.0
<b>Total UAA (ha)</b>	Hungary	4,555,110	4,612,360	1.3
	Közép-Magyarország	314,340	251,900	-19.9
	Közép-Dunántúl	528,470	524,420	-0.8
	Nyugat-Dunántúl	502,480	515,230	2.5
	Dél-Dunántúl	687,490	683,540	-0.6
	Észak-Magyarország	485,270	513,520	5.8
	Észak-Alföld	976,080	1,041,260	6.7
	Dél-Alföld	1,060,980	1,082,500	2.0
<b>Livestock (LSU) Number of persons working farms</b>	Hungary	3,097,540	2,483,790	-19.8
	Közép-Magyarország	164,090	112,160	-31.6
	Közép-Dunántúl	442,840	291,010	-34.3
	Nyugat-Dunántúl	347,440	250,790	-27.8
	Dél-Dunántúl	406,890	282,070	-30.7
	Észak-Magyarország	238,790	184,760	-22.6
	Észak-Alföld	672,540	630,810	-6.2
	Dél-Alföld	824,950	732,180	-11.2
<b>(Regular labor force)**</b>	Hungary	1,464,670	1,143,480	-21.9
	Közép-Magyarország	108,780	86,030	-20.9
	Közép-Dunántúl	145,450	109,620	-24.6
	Nyugat-Dunántúl	160,510	128,050	-20.2
	Dél-Dunántúl	200,200	151,540	-24.3
	Észak-Magyarország	204,320	146,800	-28.2
	Észak-Alföld	330,790	283,430	-14.3
*Figures on common land not included				
**For values on labor force reference years are 2003 and 2010				

**Table 4. Farm structure, key indicators, by NUTS 2 regions, Hungary, 2000 and 2010**

Source: Eurostat (ef\_kvaareg) (ef\_ov\_kvaa) and FSS 2000 and 2010

As cooperatives become a set of small farms due to privatization, the organization structure also changed. In a survey by Kispál-Vitai et al. (2012), in the case of Hungary, the manager of the cooperative is usually the one who manages almost all of the cooperative activities related to member relationships, marketing, sales and purchases. All other management activities, such as bookkeeping, payroll and invoicing, were outsourced to professional service providers for cost-saving and efficiency reasons. Because of its small size and its specific situation issues of the agency were not significant in this cooperative. The manager is the person who held the organization together, and the cooperative is likely to be transformed into a different legal form after his departure. Professional management in the cooperative has to be convinced about the cooperative's identity and values as lack of commitment towards the organization will otherwise likely lead to a push-over effect towards the investor-owned firm.

## **Conclusion**

Cooperatives, including agricultural cooperatives, are unique in the sense that its members have a dual function as owners and users. In the agency theory, organization and management problems, in this case, for cooperatives, rise from the low resources of managers and participation of members. Members of the cooperative have a dual function that is an owner and user. In this sense, management control for cooperatives is unique. Therefore, to increase the level of involvement of members of the cooperative, it requires continuous member education to increase the productivity of the cooperative. Similarly, managers of the cooperatives should not solely pursue the number of members of the cooperative but must be linked with the participation of members. Cooperatives are local organizations, and they focus on social advantages. The organizational structure should give the members an opportunity to take part in decision making, as they have direct ownership in the organization. If the members feel that they are also the investors and owners of the cooperative, then it would be automatically create a management control system and a collaborative identity with a strong organization culture to sustain the cooperative structure in the future. The role of government is also needed as a catalyst and facilitator for cooperatives. In both countries, Indonesia and Hungary, the government can make various efforts: 1) Providing maximum space with the creation of a conducive climate, easy access to capital for cooperatives and business

development efforts and business cooperation; 2) Improving counseling/training for managers, supervisors and officers through cooperative coaches in a sustainable manner, through pilot projects in several provinces, which later as a model for the development of cooperatives.

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