The Effect of Governance and Member Participation on Households' Consumption and Welfare: a Case Study of The Women Cooperatives (KOPWAN) in The City of Kediri

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A R T I C L E I N F O	A B S T R A C T
Keywords: governance member participation, households' consumption, economic growth, and welfare. **E-mail:** nekky@untag-sby.ac.id sri@untag-sby.ac.id endangindartuti@untag-sby.ac.id	This study attempts to find the effect of governance and member participation on households' consumption and welfare, a study in KOPWAN I the city of Kediri. The analysis uses Structural Equation Model (SEM) based on Partial Least Square (PLS). The sample of 493 respondent were drawn from the KOPWAN members; using purposive sampling method. The result shows the significant effect of co-op governance on member participation; member participation significantly affects households' economic growth and households' economic growth in turn increase their welfare.

1.   Introduction

The government of East Java Province in the last several years decided to facilitate and encourage the growth of cooperatives especially women cooperatives (KOPWAN). The aim is to increase women participation in the economy. To initiate the cooperative development therefore KOPWAN has been established across cities, villages, and districts in East Java Province; following guidelines provides in the 2012 government regulation no 17 (UndangundangNomor 17 Tahun 2012 TentangPerkoperasian). The growth cooperative is expected to improve the welfare of the society, e.g. creates jobs. In turn, this development increases also provide opportunity for women participation in national economy.

This study attempt to find out if co-op governance improves member participation; if member participation increase households' consumptions; if co-op governance affect households' economic growth and welfare; if member participation in co-op lead to household economic growth.

2.   Literature review

According to UU No 17 that cooperative is a legal entity established by an individual or a legal institution, requires member dues as co-op capital, and fulfill members' aspirations and needs. To achieve this mission cooperatives needs to be open and base on free choice to be member, allow member to control the organization via democratic process, and encourage active participation of members.

The growth of cooperatives in Indonesia has been encouraging in term of number of cooperatives, number of member, and amount of assets and revenue. The role of cooperative in Indonesian economy also increasingly important, e.g. hold a major role in the economy, provide a large employment, play important role in local economy and community empowerment, creates new market development and innovation, and increase export. A successful cooperative will develop its members' economy and society at large, improve their quality of life, strengthen society well-being, and achieve and strengthen national economy.

Krisnamukhti (2002:3) argues that the cooperative in society is viewed as a typical business institution that provide goods and services which are needed by its member; especially, if its members have no access to such products from other business institutions. In further development, a cooperative can become an alternative choice to fulfill their needs. At this stage society feels the benefit of cooperative which is superior to the other businesses. Members (or non-members) choses co-op based on rational decision because it can better fulfill their needs. Finally, members feel of owning the co-op become major factors for co-op to survive in bad economy.

2.1   Co-op member participation

The participation of board of director, management, and members play important role in the success of a co-op. The participation of members can be measured if they consume goods and services the co-op provided. Keith Davis defines member participation as "mental and emotional involvement in a group situation that encourages him to contribute to group goals and share responsibility for them" (Matdoan, 2011:29). It is clear that member participation required attachment of member in using goods and service provided by the co-op.

Without member participation, Hendar and Kusnadi (2005:64) argue co-op will not be able to function effectively. Co-op is established as a mean to fulfil members needs; without their active participation will lead to co-op failure. Members need to actively provide evaluation of the goods and services provided if they need to modify or change. This is another form of member participation.

2.2   Level of Household Consumption

According to SuhermanRosidi (2006) consumption is the direct use of goods and services to fulfill their needs. It is also known as personal and household's consumption expenditure on final goods and services. According to Duesonberry's relative income theory of consumption people consumption is determined by their highest disposable income they have received. Disposable income is income minus tax. If income fall consumers reduce their consumption at a certain proportion, and vice versa. However, the proportion of consumption is larger when income increases (Guritno and Algifari,, 1998:71). This process continues until the highest income is regained. The increase in income increase the consumption expenditure, and a small increase in saving (Soediyono 2000).

There are two type of households' need, current and future needs. The current needs are the needs to be fulfill immediately, like clothing, foods, shelter, and healthcare. The future needs are the needs which are fulfilled in the future, like kids education saving, retirement saving, and health saving.

2.3 The growth of household economy

A household can be seen as a business entity. In it, there is a husband, as the leader who manage the family. There is also a wife, as a treasurer and controller in the family. Usually, the wife who manage the financial affairs. In Indonesia, children also will be part of important in household economy. Adult children commonly will stay in family for sometimes therefore become employees that support the operational of the family.

The economic condition of a household is measure using employment and income generated to fulfill family needs. The growth of a household economy show the continuity of the employment and improve in earning.

2.4 Social welfare

According to Tadaro and Smith (2006) social welfare shows level of social developmentin achieving better life. One important aspect of this development is fair distribution of basic needs that include food, shelter, health-care, and safety. Another development aspect are improvement in livelihood, income, education, more attention to culture and human rights. Finally, the development is measured by increasing scale of economy and social choice among citizen. Therefore, social welfare measure the fulfilment of society's basic needs like adequate shelter, clothing, food, and affordable education. Studies show that women job participation significantly affect level of family consumption (Diarsi, et.all, 2014), the family consumption improve economic growth (Rusdiansyah, 2012), and in turn, the economic growth improve social welfare (Rata, 2009).

Based on the discussion, we can derive the model as the following.

H1   : Co-op governance affects member participation
H2   : Co-op governance affect level of household consumption
H3   : Co-op governance affects household economic growth
H4   : Co-op governance affects social welfare
H5   : Co-op member participation affects level of household consumption
H6   : Co-op member participation affects household economic growth
H7   : Co-op member participation affects social welfare
H8   : Level of household consumption affects household economic growth
H9   : Level of economic growth affect social welfare

3. Methods

Population in this study is member of Women Cooperation in the City of Kediri; there are 72 co-op. A sample is drawn using simple random sample among member of the co-op. There are 493 respondent were chosen. The data analysis uses Structural Equation Model (SEM), bases on Partial Least Square Model (PLS). To assure that the constructs are valid, the validity tests were performed before structural model was tested.

Table 1
variable and indicator

Variable	Indicator
Cooperative governance	Regulation on women co-op
	Extension on women co-op
	Procedure becoming co-op member
	Number of member women co-op
	Regularly conducted annual meeting
	Improvement in business level
	Growth of profit sharing
Member participation	Participate in co-op businesses
	Paying co-op membership or capital dues
	Attending co-op meeting or annual meeting
	Giving suggestion to grow co-op
	Knowing the co-op business volume
	Uses co-op services
	Increase in income from profit sharing
	Involvement in decision making and control
Level of household consumption	Increase in basic needs consumptions
	Increase in consumption of cloth/food
	Increase in consumption of shelter
	The need for recreation
	Paying co-op dues
	The need of transportation for household
Household economic growth	Income growth
	Increase in needs of clothing, food, shelter
	Increase in saving
	Ability to pay tax
	Improvement in business
	Increase in profit
Social welfare	Sufficient income for household consumption
	Sufficient income for household education
	Sufficient income for household healthcare
	Sufficient income for household recreation
	Physical quality of shelter
	Electricity needs
	Clean water needs
	Family waste disposal

3.1 Results

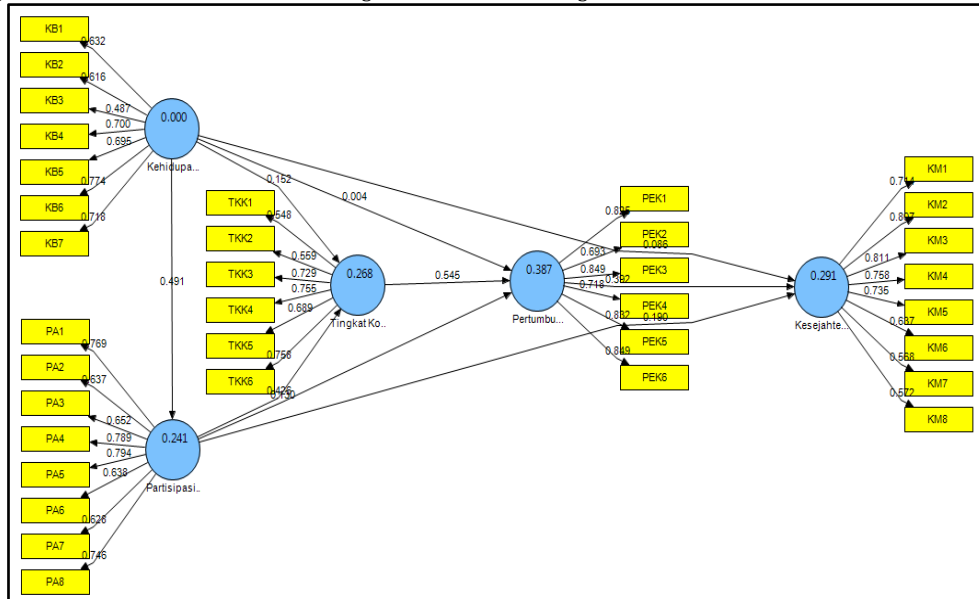Using PLS 2.0 we estimate the value of loading factors as the following.

Fig 1. The Value of Original Loading Factor
Source: Estimated based on Primary Data using SmartPLS 2.0, 2018

Table 2.
Result for Outer Loading

	Cooperative governance	Social welfare	Member participation	Household economic growth	Level of household consumption
KB1	0.632116				
KB2	0.615737				
KB3	0.487069				
KB4	0.699922				
KB5	0.694577				
KB6	0.774026				
KB7	0.718062				
KM1		0.714437			
KM2		0.806953			
KM3		0.810802			
KM4		0.758380			
KM5		0.735433			
KM6		0.637472			
KM7		0.567831			
KM8		0.571507			
PA1			0.769400		
PA2			0.636880		
PA3			0.651533		
PA4			0.789195		
PA5			0.794352		
PA6			0.638073		
PA7			0.627754		
PA8			0.745924		
PEK1				0.824667	
PEK2				0.693371	
PEK3				0.849494	
PEK4				0.717622	
PEK5				0.832202	
PEK6				0.849042	
TKK1					0.547539
TKK2					0.558805
TKK3					0.729409
TKK4					0.755330
TKK5					0.688768
TKK6					0.757519

Source: Estimated based on Primary Data using SmartPLS 2.0, 2018

As depicted on Table 2 we found that KB3, indicator of variable Co-op Governance is dropped from the model since the value of loading factor is less than 0.50. After removinf KB3 the test was repeated. The test result is depicted in Fig 3 below.
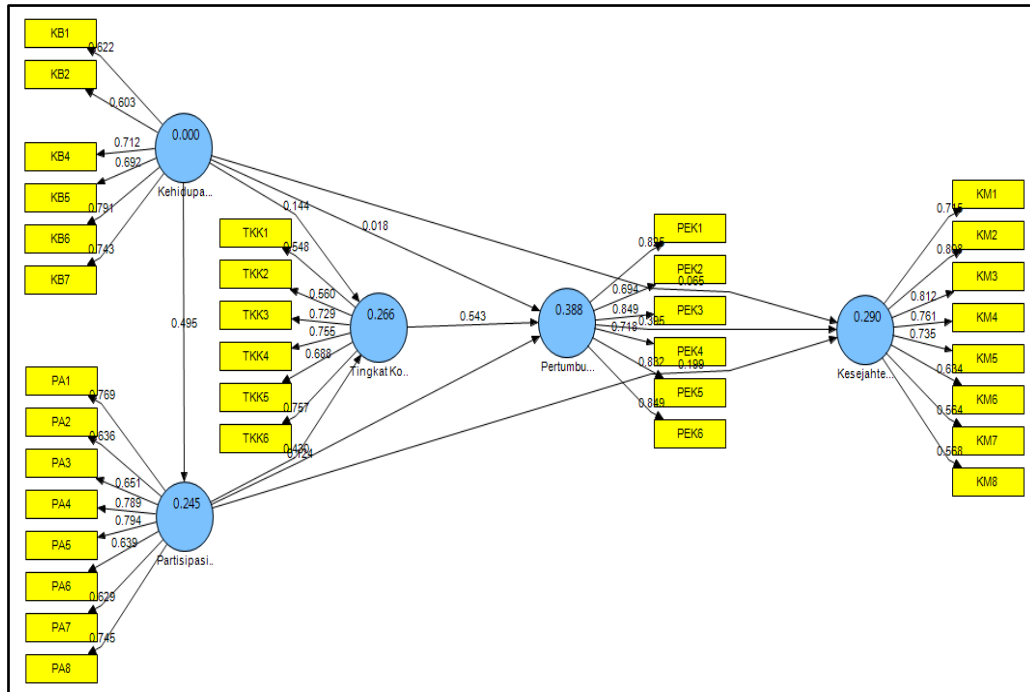
Fig 2. The Value of Loading dropping
Source: Estimated based on Primary Data using SmartPLS 2.0, 2018

Table 3.
Result for Outer Loading Dropping

	Cooperative governance	Social welfare	Member participation	Household economic growth	Level of household consumption
KB1	0.621997				
KB2	0.602591				
KB4	0.711730				
KB5	0.692286				
KB6	0.791157				
KB7	0.742644				
KM1		0.715251			
KM2		0.808040			
KM3		0.811904			
KM4		0.761023			
KM5		0.735224			
KM6		0.634160			
KM7		0.563971			
KM8		0.568269			
PA1			0.768605		
PA2			0.636231		
PA3			0.651113		
PA4			0.788746		
PA5			0.794371		
PA6			0.639478		
PA7			0.629352		
PA8			0.745286		
PEK1				0.824548	
PEK2				0.693576	
PEK3				0.849432	
PEK4				0.717674	
PEK5				0.832206	
PEK6				0.849046	
TKK1					0.548174
TKK2					0.559616
TKK3					0.728750
TKK4					0.755485
TKK5					0.688440
TKK6					0.757049

Table 3 indicates that loading factor have value of larger tan 0.5, meaning that indicators used in this research are valid, meet the convergence validity. Discriminant validity indicator reflective can be seen on cross-loading between indicator and its constructs using PLS Algorithm report. See Table 4 below.

Table 4.
Discriminant Validity Cross-Loading

	Cooperative governance	Social welfare	Member participation	Household economic growth	Level of household consumption
KB1	0.621997	0.228319	0.246247	0.137640	0.282399
KB2	0.602591	0.254446	0.214955	0.130549	0.217091
KB4	0.711730	0.183479	0.318592	0.259433	0.241826
KB5	0.692286	0.171521	0.436975	0.139333	0.223462
KB6	0.791157	0.165268	0.392005	0.225487	0.258150
KB7	0.742644	0.160565	0.417637	0.231787	0.270315
KM1	0.097864	0.715251	0.172302	0.366220	0.394951
KM2	0.211482	0.808040	0.294927	0.388029	0.487096
KM3	0.204684	0.811904	0.287091	0.415910	0.486286
KM4	0.189963	0.761023	0.398081	0.544610	0.579194
KM5	0.159826	0.735224	0.261351	0.292428	0.441985
KM6	0.240308	0.634160	0.230413	0.184567	0.295714
KM7	0.294881	0.563971	0.265113	0.205861	0.306159
KM8	0.189906	0.568269	0.226991	0.145740	0.281032
PA1	0.344731	0.340105	0.768605	0.320230	0.357675
PA2	0.355730	0.273629	0.636231	0.175543	0.295178
PA3	0.276578	0.224391	0.651113	0.188362	0.301370
PA4	0.324963	0.369349	0.788746	0.389079	0.409173
PA5	0.362688	0.362577	0.794371	0.368615	0.441944
PA6	0.393841	0.162353	0.639478	0.235373	0.296058
PA7	0.507732	0.164808	0.629352	0.252035	0.341110
PA8	0.244768	0.273717	0.745286	0.309150	0.366290
PEK1	0.175964	0.436205	0.332846	0.824548	0.541591
PEK2	0.213819	0.229713	0.174468	0.693576	0.401689
PEK3	0.225810	0.499603	0.360106	0.849432	0.545708
PEK4	0.236680	0.365666	0.338119	0.717674	0.473832
PEK5	0.225630	0.387429	0.341851	0.832206	0.461229
PEK6	0.239137	0.378899	0.350833	0.849046	0.476489
TKK1	0.202166	0.169820	0.239716	0.410379	0.548174
TKK2	0.159800	0.171738	0.206763	0.452393	0.559616
TKK3	0.260088	0.528471	0.372518	0.385291	0.728750
TKK4	0.200529	0.599363	0.424295	0.494739	0.755485
TKK5	0.292007	0.436374	0.365368	0.341068	0.688440
TKK6	0.332600	0.484890	0.393193	0.399786	0.757049

Source: Estimated based on Primary Data using SmartPLS 2.0, 2018

An indicator is considered to be valid if the value of loading factor is the highest against the variable of interest than other variables. From Table 4 we can find that Co-op Governance indicator has higher value than other indicators. So the latent values in this block are better than in another block. Another method to test the discriminant validity is using square root of variance extracted (AVE). The benchmark for the AVE value is 0.5. See Table 5 below.

Table 5.
Average Variance Extracted (AVE)

	AVE
Cooperative governance	0. 554844
Social welfare	0.598320
Member participation	0.504138
Household economic growth	0.635161
Level of household consumption	0.640428

Source: Estimated based on Primary Data using SmartPLS 2.0, 2018

Table 5 shows the value of AVE above 0.5 for all of the variables in the research model, therefore the variables are valid.

a.   Reliability Test

This test uses composite reliability test for each block of indicators. The benchmark of composite reliability test is 0.7. See Table 6 bellow for the reliability test.

Table 6.
Composite Reliability Test

	CompositeReliability
Cooperative governance	0.848781
Social welfare	0.886463
Member participation	0.889579
Household economic growth	0.912117
Level of household consumption	0.834309

Source: Estimated based on Primary Data using SmartPLS 2.0, 2018

Table 6 shows that all the values of composite reliability are above 0.7 therefore all indicators are reliable. Another reliability test is using Cronbach's Alpha, the benchmark is 0.5. The results o the test is depicted in Table 7 below.

Table 7.
Cronbach's Alpha

	Cronbachs Alpha
Cooperative governance	0.786389
Social welfare	0.858411
Member participation	0.857548
Household economic growth	0.883913
Level of household consumption	0.759873

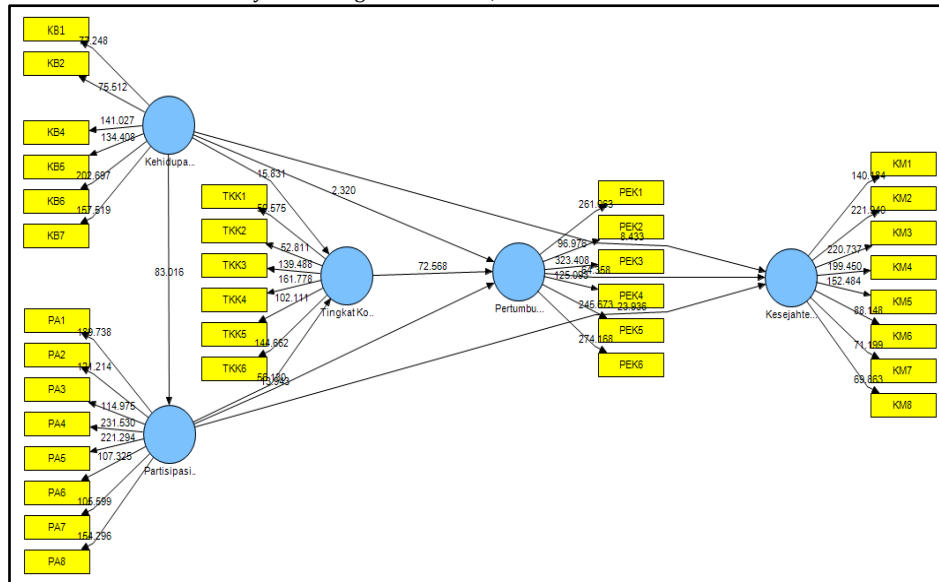Source: Estimated based on Primary Data using SmartPLS 2.0, 2018

Fig 3. AlgorithBootsrapping Report

Source: Estimated based on Primary Data using SmartPLS 2.0, 2018

Path coefficient shows level of significant and the relationship among variables. The criteria for the hypothesis test is the following.

Reject null-hypothesis if t-value > t-table, where t-table is 1.96

Do not reject null-hypothesis if t-value < t-table, where t-table is 1.96

The result of path analysis is the following.

Co-op governance affects member participation

Based on Table 6, co-op governance significantly affects member participation with t-statistic of 83.01589. The value of original sample estimate is 0.495245, showing positive relationship co-op governance and member participation, the higher the value of co-op governance the higher the member participation, and vice versa.

Co-op governance affect household consumption

Based on Table 6, the effect of co-op governance to the household consumption is statistically significant at t-statistic of 15.830985 which is greater than t-table 1.96. The value of original sample estimate is 0.143667 that indicates positive relationship between the two variables, the higher the level of governance the higher the household consumption level.

Co-op governance affects household's economic growth

Based on Table 6, the effect of co-op governance to the household's economic growth is statistically significant at t-statistic of 2.31979 which is greater than t-table 1.96. The value of original sample estimate is 0.018276 that indicates positive relationship between the two variables, the higher the level of governance the higher the household's economic growth level.

Co-op governance affects social welfare

Based on Table 6, the effect of co-op governance to the social welfare is statistically significant at t-statistic of 8.432955 which is greater than t-table 1.96. The value of original sample estimate is 0.064834 that indicates positive relationship between the two variables, the higher the level of governance the higher the social welfare level.

In Kediri, a higher level of activity in co-op governance is possible because of several conducive factors. A strong legal basis and city ordinances that support and encourage the growth of cooperatives. The city government of Kediri trough the Office of Cooperatives and the Labor Department actively provide consultations and extension for women co-op (KOPWAN). It conducts monthly meeting in KOPWAN Forum under supervision of the offices. KOPWAN is formed in every villages and it require a simple procedure to become co-op's member to ensure easy access to the co-op services. To continue improving professionalism in managing co-op, the KOPWAN officers participate in regular training provided by the offices. As a result, most of the KOPWANs routinely conduct annual meeting, and if any of them experience any technical issue in organizing the meeting, the office will provide a consultant to resolve it. The KOPWAN member grows faster in the area and most of them own business so if they need business capital they can take a loan from the co-op.

The effect of member participation on household consumption

Based on Table 6, the effect of member participation to the household's consumption is statistically significant at t-statistic of 56.129643 which is greater than t-table 1.96. The value of original sample estimate is 0.429576 that indicates positive relationship between the two variables, the higher the level of member participation the higher the household's consumption level.

The effect of member participation on household's economic growth

Based on Table 6, the effect of member participation to the household's economic growth is statistically significant at t-statistic of 13.943213 which is greater than t-table 1.96. The value of original sample estimate is 0.123721 that indicates positive relationship between the two variables, the higher the level of member participation the higher the household's economic growth.

The effect of member participation on social welfare

Based on Table 6, the effect of member participation to the social welfare is statistically significant at t-statistic of 23.936062 which is greater than t-table 1.96. The value of original sample estimate is 0.198666 that indicates positive relationship between the two variables, the higher the level of member participation the higher the level of social welfare.

Member participation in KOPWAN is measured using how active the members in using the co-op business' goods and services and paying the dues as co-op working capital. Most of members in KOPWAN not only adhere to mandatory saving but also participate in voluntary saving. Member present in co-op meetings and annual meeting and actively offer suggestion in organization decision making are as part of member attempt to develop the sense of belonging. More importantly, the measure of member participation is if members know the development of the organization like the growth of profit sharing. There are some KOPWANs that divide their member into several groups to ease in coordination of solving any organizational issues. For example, some of the KOPWAN create a loan system called "tanggungrenteng," where the group takes a role as a guarantor of any loan taken by a group member.

The effect of household consumption on the growth of household's economy

Based on Table 6, the effect of household consumption on the growth of household's economy is statistically significant at t-statistic of 72.567568 which is greater than t-table 1.96. The value of original sample estimate is 0.543382 that indicates positive relationship between the two variables, the higher the level of household consumption the higher the level of household economic growth.

The welfare of a co-op member can be measured from the level of household consumption, primary and secondary consumptions. KOPWAN helps member to fulfill basic needs, foods, clothing, and shelter. KOPWAN also provide help in fulfilling needs for recreation and transportation. KOPWAN members, on average, feel that they can fulfill their needs through their co-op. That indicates how involved they are in the organization.

The effect of household economic growth on social welfare

Based on Table 6, the effect of household economic growth on social welfare is statistically significant at t-statistic of 64.357662 which is greater than t-table 1.96. The value of original sample estimate is 0.394517 that indicates positive relationship between the two variables, the higher the level of household economic growth the higher the level of social welfare.

The role of the women co-op in the development of the city of Kediri focuses on social welfare. The results show that on average the fulfillment of several aspect of social welfare. They have adequate income to fulfill household consumption needs, to finance their education need for the household members, to pay household need for healthcare, to pay households need for recreations, to provide adequate shelters for household member needs including space and lights, to fulfill household need for clean water, and to provide proper trash and sewer system.

b.   Structural Model Test Analysis (Inner Model)

After the model od estimated and met the Outer Model criteria, the structural model test (inner test) is performed. The following is the value of R-Square for the constructs.

Table 8.

R-Square, dependent variable: Co-op governance

Independent Variables	R-Squre
Social welfare	0.289513
Member participation	0.245267
Household economic growth	0.387549
Level of household consumption	0.266305

(Source: primary data calculated using SmartPLS 2.0, 2018)

The R-square measure goodness of fit the regression model, the percentage of variability of dependent variable to the independent variable. The R-square value for member participation of 0.245267 indicates that 24.5% of variability of co-op governance is explained by the variability of level of member participation. The variability of variable co-op governance is 26.63% explained by the viability in the level of household consumption. The variability of variable co-op governance is 38.75% explained by the viability in the level of household economic growth. The variability of variable co-op governance is 28.95% explained by the viability in the level of social welfare.

4.   Conclusion

This study attempts to find the effect of governance and member participation on households' consumption and welfare in women co-op in the city of Kediri. The result shows that co-op governance significantly affects member participation, co-op governance significantly affects level of household consumption, co-op governance significantly affects level of household economic growth, co-op governance significantly affects level of social welfare, member participation significantly affects level of household consumption, member participation significantly affects level of household economic growth, member participation significantly affects level of social welfare, level of household consumption significantly affects household economic growth, and level of household economic growth significantly affects social welfare.

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