



## The Role of Member Participation and Governance on Sustainability: Evidence from Cooperatives in South Aceh

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### Abstract

**Objective** – The purpose of this study is to find out the determinants of cooperative sustainability in the cooperatives of South Aceh District, Aceh, Indonesia. The dependent variable in this study is cooperative sustainability, while the independent variables include participation of cooperative members and cooperative governance.

**Design/methodology** – The population in this study were all cooperative employees in South Aceh Regency. Purposive sampling was used to draw the samples in this study which consist of all registered cooperatives in South Aceh with the criteria of active cooperatives as many as 157 cooperatives. Respondents in this study were chairman and treasurer totaling 314 respondents. Multiple linear regression analysis was used to test the hypotheses.

**Results** – The results of this study indicate that the participation of members and the government simultaneously affect the sustainability of cooperatives in South Aceh. Furthermore, partially the participation variables of cooperative members and governance variables affect the sustainability of cooperatives in South Aceh.

**Keywords:** Sustainability of cooperative, participation, governance

### 1. Introduction

Economic actors in Indonesia are divided into three sectors, namely consumer household businesses, producer households, and the government. The government plays a role in economic activities through state-owned enterprises and most of them are established for profit (Raidayani, 2018). Producer households play a role in the economy with the aim of making profits, while cooperatives are established with the aim of prospering their members and not the main purpose of making profits. Cooperatives are economic businesses that are in accordance with the principle of kinship, this is in accordance with the 1945 Constitution article 33 paragraph 1 which states that the economy is structured as a joint effort on the basis of kinship.

Cooperatives are business entities consisting of voluntary people who provide benefits for small communities in fulfilling social justice and prosperity for all cooperative members (Damayanti, 2016). Thus, cooperatives can make an important contribution to economic development in Indonesia. The contribution of cooperatives is very important because it can improve the community's economy in terms of increasing income or profits. Cooperatives support the community's economy by increasing the welfare of members. Raidayani (2018) states that increasing the welfare of cooperative members can reduce community poverty. Therefore, to improve the welfare of community members, cooperatives really need member participation and good cooperative governance to increase the success of cooperatives, so that the impact on cooperative sustainability is more optimal.

The success of cooperatives is measured by the sustainability of cooperatives. Ardiyanti & Mora (2019) states that the success of a cooperative business is an activity by directing energy and thoughts to get better or more advanced changes, both in terms of qualitative and quantitative in accordance with the goals that have been set.

Furthermore, Baswir (2015: 29), states that the sustainability of cooperatives is more emphasized in efforts to increase the ability of cooperatives in creating business fields and taking advantage of existing business opportunities so that with the sustainability of cooperatives they can increase their business scale and competitiveness against economic actors so that cooperatives can provide greater benefits to its members.

The sustainability of cooperatives needs to be considered to improve the development of cooperatives. Therefore, the sustainability of cooperatives can be measured by cooperatives that are still active in carrying out annual member meetings. the number of cooperatives that are still active can be seen in Table 1.

**Table 1.**  
The  
Development of  
the Number of  
Cooperatives in  
South Aceh in  
2019

No.	Description	Amount (2018)	Amount (2019)
1	Cooperatives registered with the South Aceh Government	369	372
2	Number of active cooperatives	245	259
	Number of inactive cooperatives	124	113

Based on Table 1 the number of cooperatives registered in South Aceh Regency is 369, while in 2019 it is 372. The number of cooperatives that are still active in 2018 is 245, while in 2019, active cooperatives are 259. However, cooperatives in not all of the districts of South Aceh are active, there are still cooperatives that are not active. In 2018 there were 124 inactive or frozen cooperatives, while in 2019 there were 113 inactive cooperatives. There are still many cooperatives in South Aceh that are not active or can be said to have failed in carrying out their business. The factors that caused the failure were the inactive participation of members. Participation of cooperative members, namely members participating in activities held by cooperatives to achieve prosperity and togetherness as a common goal of cooperatives. Masri (2017) states that the participation of cooperative members is very important in a cooperative business, the progress of a business depends on member participation in aspects of attendance at the cooperative's Annual Member Meeting, capital formation, business development, and communication in program planning. Low member participation is caused by cooperatives that are less able to promote and provide good service to members, so there is no encouragement from members to remain interested in joining cooperatives. In other words, member participation in cooperatives is still relatively small, so the role of cooperative members is still very low in determining the sustainability of cooperatives. This is supported by Sari (2016); Feronica (2017); Asriati (2017); Kikky (2017) and Masri (2017) who state that member participation has a significant effect on the sustainability of cooperative.

Furthermore, governance is also an important factor in influencing the sustainability of cooperative, because if cooperative governance is good, it will increase the sustainability of cooperative (Iqbal, Nawaz, & Ehsan, 2019). Furthermore, Kyazze et al., (2017) stated that if cooperative governance is not based on the principle of good cooperative governance, there will be a potential for negative impacts on the sustainability of cooperative. Likewise, Yusma, et al. (2021) stated that good governance in cooperatives can provide an increase in the number of members it will increase the sustainability of cooperatives. Thus, the implementation of the governance system in Cooperatives is very important to change the organizational system for the better, internal control, and reduce the weaknesses of Cooperative governance to improve the sustainability of Cooperatives. This is supported by Kyazze et al., 2017; Huang & Ariff

(2015); Sadowski (2017), and Iqbal, et al. (2019) who states that cooperative governance has a significant effect on the sustainability of cooperatives.

The explanation above provides an overview of the problems related to the sustainability of cooperatives in South Aceh which are interesting to study, namely there are still many cooperatives that are not active. The implication is that there is an allegation that the indicators for measuring the sustainability of cooperatives are still unable to answer whether the programs and activities that have been determined touch the interests of cooperative members. In this regard, it is important to conduct further research to examine the effect of member participation and cooperative governance in improving cooperative sustainability.

## **2. Literature Review, Theoretical Framework, and Hypothesis Development**

### *2.1 Relationship between Member Participation and Cooperatives Sustainability*

Member participation has a relationship with the sustainability of the cooperative business (Kyazze, Nkote & Wakaisuka-Isingoma, 2017), this relationship can be seen from the role of member participation in the sustainability of the cooperative business. The participation of cooperative members can reduce the cooperative's business performance if the cooperative does not receive support from its members. As a result of the absence of member participation, cooperative efforts cannot increase their role in the organization. Therefore, member participation can increase the participation of people who have the same vision and mission to develop cooperative organizations and businesses. The establishment of cooperatives is intended to meet the needs of members, and vice versa, members take advantage of the services of cooperative companies, are considerate and responsible for cooperative companies in the form of contributions to various forms of savings, and share the risk of cooperative business, and proactively participate in various forms and processes of business decision making. cooperative. Member participation is based on the principle of dual identity, namely members as owners, as well as users (Huang, & Ariff, 2015). Thus, the greater the participation of members, the greater the role of cooperative in providing contributions, services, and services for cooperative members.

*H1. Member participation affects the sustainability of the cooperative.*

### *2.2 Relationship between Governance and Cooperative Sustainability*

Governance has a relationship with the sustainability of cooperative business. Sadowski (2017) said that this relationship can be seen in terms of cooperative management that does not consistently apply ethics, including transparency, accountability, responsibility, independence and fairness, and equality.

Corporate governance as described above is relatively simple, in most cases, they enjoy several significant advantages over large corporations where there is a wider spread of share ownership, such as: (1) because there is little or no separation of ownership from control, identification of objectives and other decision-making can be made simpler, (2) because the control of the company is carried out directly by the owner, the personal incentives are very strong, (3) the loyalty of family workers is usually high, especially if they also occupy key positions in the company (Hong Kong Institute of Directors, 2014). Elsewhere in the world, efforts to implement GCG in SMEs have been carried out, such as The International Finance Corporation (IFC), the largest global development institution that focuses exclusively on the private sector in developing countries, has issued the 2011 IFC Family Business Governance Handbook. (IFC, 2011).

Governance is one of the important things in the effort to implement business ethics. With the consistent application of business ethics, it can create a better and sustainable business climate, efficiency and transparency, are one of the great forums provided by cooperatives to their members to encourage the creation of efficient cooperative and provide great benefits for cooperative members (Kyazze, Nkote, &

Wakaisuka-Isingoma, 2017). Thus, the better the management of the cooperative, the cooperative provides maximum and sustainable profits.

*H2. Governance affects the sustainability of cooperative.*

### **3. Research Method**

#### *3.1 Population and Sample*

The population in this study were all registered cooperatives in South Aceh with active cooperative criteria as many as 259 cooperatives. However, this study used a sample that was carried out using a purposive sampling technique, so the sample in this study was 157 cooperatives in the South Aceh Government, with the characteristics of the Chair and Treasurer. The number of samples in the study was 314 respondents.

Sources of data using primary data, in the form of opinions and information from respondents obtained by data collection techniques through the distribution of questionnaires, namely a set of questions or written statements for respondents to answer. The data obtained from the questionnaire was in qualitative form, so it was first converted into quantitative data using an interval scale in the form of a 5-point Likert scale.

#### *3.2 Analysis Method*

This research uses multiple linear regression analysis method. Linear regression analysis is one of the tools in statistics that is used to determine whether or not there is a relationship between the independent variable (predictor) and the dependent variable (response), with the aim of knowing the significance of the effect of the independent variable on the dependent variable (Pramesti, 2017). The multiple linear regression equation used in this study can be written as follows:

$$Y = a + b_1x_1 + b_2x_2 + e$$

Information:

Y = Cooperative sustainability

$x_1$  = Member participation

$x_2$  = Governance

$b_i$  = Regression coefficient value

e = Epsilon (Error term)

a = Constant

### **4. Results**

#### *4.1 Characteristics of Respondents*

Respondents used in this study were 134 respondents. Respondents who have filled out the questionnaire will then be identified based on age, gender, education, and years of service. Characteristics of respondents based on gender, 183 more men than women, while 132 women. The age of respondents is dominated by the age range of 41 to 50 years. Furthermore, the dominance of the respondent's education is more in high school education as many as 187 people. Then, most of the respondents have worked in the South Aceh cooperative for 11-15 years.

#### *4.2 Respondents' Responses*

Respondents' responses regarding the cooperative sustainability variable have an average value of 4.02 which is on a scale of 4, namely agree, meaning that the tendency of respondents has been able to increase the success of cooperative. Furthermore, the tendency of respondents regarding member participation is 4.25 which is on a scale of 5 which is strongly agree, which means that member participation is very high so that it can have an impact on the sustainability of the cooperative for the better. Then, the tendency of respondents regarding cooperative governance to have an average score of 4.25 which is on a scale of 4, which is agree, meaning that cooperative

governance in South Aceh is in accordance with the expectations of the management and members of cooperatives in Aceh.

#### 4.3 Validity Test Result

Validity testing aims to see whether or not a questionnaire item used in research variables is valid, with the basis for making the decision, namely if the R value calculation is greater than  $R_{table}$ , then the variable questionnaire item is declared valid, and vice versa. The results of the statistical validity test can be concluded that the results of the instrument testing of the variables of member participation, cooperative governance, and cooperative sustainability have a value greater than 0.113. Thus, it can be stated that all research instruments from the variables of member participation, cooperative governance, and cooperative sustainability used are valid and can be used in research.

#### 4.4 Reliability Test Result

Reliability testing aims to test the reliability of the variables used, with the basis for making decisions, namely if the Cronbach alpha value is greater than the  $R_{table}$  value, then the variable is declared reliable, and vice versa. The statistical results of reliability testing can be concluded that the value of Cronbach's alpha of the variables of cooperative sustainability, member participation, and cooperative governance is greater than the value of  $R_{table}$ . Thus, it can be stated that all the variables used are reliable.

#### 4.5 Multiple Linear Regression Test

Multiple linear regression testing was conducted to test the effect of the independent variable on the dependent variable. The statistical results of multiple linear regression testing can be seen in Table 2.

Variable Name	Standardized Coefficients		T-count	t-table	Sig
	B	Std. Error			
Constant (a)	2,638	0,081	32,411	1,967	0,000
Member Participation	0,145	0,018	8,066	1,967	0,000
Governance	0,179	0,017	10,572	1,967	0,000

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**Table 2.** Multiple Linear Regression Test

Based on Table 2, the regression equation is obtained as follow.

$$Y = 2.638 + 0.145X_1 + 0.179X_2 + e$$

Based on the regression equation above, it can be explained that:

- Constant of 2,638. This means that if the participation of members ( $X_1$ ), governance ( $X_2$ ), is considered constant, then the magnitude of the sustainability of cooperatives in South Aceh is 2,638 on an interval scale unit or the sustainability of cooperatives in South Aceh is still low, assuming the variables of member participation and governance did not change.
- The regression coefficient of member participation ( $X_1$ ) is 0.145. This means that for every 100% change (member participation) it will relatively increase the sustainability of cooperative businesses in South Aceh by 14.5%, with a significance level of 0.000 or = less than 5%, thus the better the participation of members will further improve sustainability. cooperatives in the future.
- Regression coefficient for Governance ( $X_2$ ) is 0.179. Every improvement in governance will relatively increase the sustainability of cooperative businesses in South Aceh by 17.9%, with a significance level of 0.000 or = less than 5%, with better

cooperative governance, the relative sustainability of cooperatives in South Aceh will increase.

Based on the results of the analysis above, it can be seen that the two variables of member participation have a positive influence on the sustainability of cooperative business in South Aceh with a regression coefficient value of 0.145, while the governance variable has a relatively higher influence on employee performance with a regression coefficient value of 0.179.

#### *4.6 Discussion*

Based on the results of the research that has been discussed, it can be seen that the participation of members and the management of cooperatives simultaneously affect the sustainability of cooperatives in South Aceh Regency. The value of the coefficient of determination of 43.9% indicates that member participation and governance together affect the sustainability of cooperatives in South Aceh by 43.9%, while the remaining 56.1% is influenced by other factors not included in this research model. The results of this study are consistent with the research conducted by Kyazze, Nkote & Wakaisuka-Isingoma (2017), where the results of his research prove that there is a significant relationship, namely the role of member participation in the sustainability of cooperative business. The participation of cooperative members can reduce the cooperative's business performance if the cooperative does not receive support from its members. The results of this study are also consistent with the research conducted by Iqbal & Ehsan (2018), where the results of his research prove that the profitability and sustainability of MFIs increase with good governance practices and vice versa and that more profitable and sustainable MFIs have better governance systems.

The results of this study imply that with the participation of members who are always maintained and also good communication between the management and members will have an impact on the sustainability of the cooperative in the future, then good governance carried out by the cooperative management will also have an impact on the sustainability of the cooperative. the sustainability of cooperatives in the future, so that cooperatives can develop in accordance with the expectations of the management and members.

#### *4.7 Effect of Member Participation on Cooperative Sustainability*

The results showed that member participation had a positive effect on the sustainability of cooperatives in South Aceh. This positive influence means that the higher the participation of members, the higher the success and sustainability of cooperatives in South Aceh. The results of this study are in accordance with research conducted by Kyazze, Nkote & Wakaisuka-Isingoma (2017), where there is a strong relationship between the role of member participation on the sustainability of cooperative businesses. The participation of cooperative members can reduce the cooperative's business performance if the cooperative does not receive support from its members. This indicates that the participation of members who are always given by members will have an impact on the sustainability of the cooperative. It is also stated that member participation is also based on the principle of dual identity, namely members as owners and users (Huang & Arif, 2015).

The results of the study are consistent with respondents' answers which state that all members pay principal savings for the sustainability of the cooperative in the future and all members also pay off mandatory savings regularly so that the sustainability of the cooperative will continue to be well maintained and there is also support from annual member meetings that are always held. attended by most of the members.

This research is in accordance with Kikky's research (2017) which states that the participation of cooperative members affects the surplus, with a surplus, the

sustainability of the cooperative will be realized. However, this research is not in line with Masri's research (2017) which states that the participation of cooperative members does not directly affect the sustainability of the cooperative.

#### *4.8 Effect of Governance on Cooperative Sustainability*

The results show that governance has a positive effect on the sustainability of cooperatives in South Aceh. This positive influence means that the better the governance, the higher the success or sustainability of the cooperative.

The implications of this study indicate that governance is a good organizational governance mechanism for managing organizational resources efficiently, effectively, economically, and productively, using the principles of openness, accountability, responsibility, independence, and fairness, in order to achieve organizational goals. This is in accordance with the opinion of Sadowski (2017) which states that the relationship can be seen in terms of consistent cooperative management in applying ethics including transparency, accountability, responsibility, independence and fairness, and equality. Thus, the better the management of the cooperative, the cooperative provides maximum and sustainable profits.

The results of the study can also be explained based on respondents' answers stating that the management of cooperatives in South Aceh is carried out by prioritizing the principle of transparency in every decision making, and also that every cooperative activity will be accounted for in the RAT. Then the accountability principle is also applied by the management in relation to each work program, reports on the results of cooperative activities, cooperative problems, aspirations of cooperative members, and various material matters.

This study is consistent with the research of Sumual, et al. (2020), which states that cooperative governance in this case managerial ability in managing cooperatives affects the sustainability of cooperatives, in this case, the success of cooperatives in the welfare of their members. However, this study is inconsistent with Rima's (2018) research which states that good corporate governance does not significantly affect the sustainability of cooperatives. However, this must be adjusted to the conditions of cooperatives in Indonesia.

### **5. Conclusion, Implication and Limitation**

Based on the results of the analysis and discussion that has been done previously. It is known that the participation of members and the management of cooperatives jointly affect the sustainability of cooperatives in South Aceh. Then, the participation of members partially has a significant positive effect on the sustainability of cooperatives in South Aceh Regency. Finally, corporate governance also partially has a significant positive effect on the sustainability of cooperatives in South Aceh District.

Based on the results of the study, to improve the sustainability of cooperatives, it is necessary to increase member participation and cooperative governance in order to increase the remaining results of their business.

This research certainly has limitations and suggestions for further research. Further research will provide added value if there are additional variables such as organizational commitment, human resource competence, or other variables that can affect the sustainability of cooperatives. Further research also needs to be done to see if there are moderating variables or intervening variables such as leadership style, and organizational culture variables that can affect the sustainability of cooperatives.

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