



Good corporate governance in cooperatives organization: Lesson learn from Indonesia

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Abstract

Governance is a set of compliance principles that are now being applied to all types of companies, including non-bank financial corporations such as cooperatives. A cooperative is a national institution based on the principle of mutual cooperation that collects funds from the community and channels them back into the community. Governance has five main principles: transparency, accountability, responsibility, independence, and fairness and equality. This research aims to analyze the existing good corporate governance at cooperative organizations in East Lombok, Indonesia. The results of this research show that the principle of responsibility is the most widely implemented principle by the cooperatives in East Lombok, namely 67.75%. According to the principle of fairness and equality, an average of 48% of the cooperatives have undergone fair cooperation between each existing stakeholder. Then in third place is the principle of independence, with an average of 44.25%. The findings also demonstrate that 41% of cooperatives in East Lombok operate transparently, allowing all members, administrators, supervisors, and employees to access financial and non-financial information. The lowest figure is in accountability; that is, only 35.5% of the cooperatives have clarity of the functioning of the structure, system, and responsibility in its enforcement. The results of this study show that cooperatives in East Lombok have a good corporate governance system of only 59.12%. This is not a high value, so the cooperative in East Lombok should improve the good governance of cooperatives according to its principles.

Keywords: Corporate governance, Cooperatives organization, Accountability and responsibility, East Lombok.

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1. Introduction

Information that is relevant for decision-making needs to be disclosed by the company as a form of management responsibility. This condition is part of corporate governance (Al-Sartawi, 2018). Governance is a set of compliance principles that were originally only intended for private companies listed on the stock exchange. However, in its development, governance has begun to be implemented by other sectors, such as companies that are not listed on the stock exchange, to government agencies (Hopt, 2021). Governance is a system designed to direct the management of a company professionally based on the principles of transparency, accountability, responsibility, independence, as well as fairness and equality. The main objective of implementing governance is to optimize the value of the company in the eyes of shareholders and other stakeholders in the long term (PT Bursa Efek Indonesia, 2011). In its development, current governance is not only for general companies, but also for financial companies where the main activity is collecting funds and channeling them back. Financial companies consist of banking and non-banking companies.

Microfinance institutions such as cooperatives are crucial non-bank financial institutions and have the potential for misappropriation and embezzlement of public funds (Ekayani et al., 2020). This is because cooperatives are institutions with quite a lot of capital owners, namely all of their members, so they need to apply the principles of good governance. Taylor (2021) states that cooperatives manage public goods and shared resources, so good governance is very important to implement. Ma et al. (2023) stated that cooperatives have advantages compared to other financial institutions, where cooperatives have a fair and inclusive business model that can survive changing global economic conditions.

Cooperatives as one of the economic supports that are closest and easily accessible to the community, are expected to have good governance principles. Cooperatives are one way to increase the scale of micro, small, and medium enterprises, so the government needs to focus on their governance. Even though cooperatives use voluntary principles, in reality, cooperatives must still be managed by professionals. The voluntary principle means that all parties share the same goal of building a cooperative to provide benefits to all stakeholders. Cooperatives must comply with governance principles in order to be able to grow the economy of Indonesian society (Putra et al., 2021).

In February 2023, the Indonesian Accountants Association (IAA) and the Revolving Fund Management Institute for Cooperatives, Micro, Small, and Medium Enterprises (LPDB-KUMKM) signed a Memorandum of Understanding regarding the preparation of standardisation and assistance in the implementation of financial reporting and cooperative governance. Later, IAI will issue standards related to financial reporting and cooperative governance that can be used as general standards for running cooperatives. These standards and guidelines are needed so that cooperatives can be compared with each other. This standard can increase transparency and accountability, as well as create trust among cooperative members (Ikatan Akuntan Indonesia, 2023). A study is needed that analysis the extent to which cooperative governance is currently being implemented so that the Department of Cooperatives and UMKM, as the institution providing guidance, can plan the things that are needed in the future related to the implementation of these standards.

There has not been much research on cooperative governance. Some existing studies only use a few observation units. Research on governance that has been widely carried out so far is research on corporate and bank governance. Cooperatives are different entities from banks because their aim is for the welfare of members, while banks generally have the aim of making a profit (Lestari et al, 2019). This research will look more broadly, namely at the district level

with a fairly large sample, where researchers carry out direct observations and interviews with the research sample.

The background mentioned above is the motivation for researchers to conduct research to find out whether the governance of cooperatives in East Lombok is running well. It is hoped that this research will provide benefits for cooperative administrators and members, as well as the wider community, to find out the extent of cooperative governance that has been implemented and what components must be fulfilled in order to realise good cooperative governance. Apart from that, this research also provides benefits to the government, especially the East Lombok regional government, in making future policies related to cooperative governance.

2. Literature Review

Stewardship theory describes situations in which stewards are not motivated by individual goals but rather set goals in the interests of the organization to the desired goals. (Donaldson & Davis, 1991). Stewardship theory suggests that the shift in corporate control from owner to professional manager can be a positive development in managing the complexity of modern enterprises. This theory assumes that managers will maximize company profits and good governance with their in-depth knowledge, up-to-date operational information, technical expertise, and commitment to the company (Jefri et al., 2018). The theory is suitable for this research because there is a connection between the servants of the stewardship with the functions of resource management and the people of the principle. There was an agreement between the stewardship and the people about trust according to the purpose of the organization. (Sofyani et al, 2020).

According to the 2014 National Committee on Governance Policy (KNKG), the principles of good corporate governance include transparency, accountability, responsibility, independence, fairness and equality. These principles are adopted from the international practice of the Organization for Economic Cooperation and Development (OECD). The KNKG (2014) explains that transparency relates to full and timely disclosure so that information can be used as it should. The principle of accountability is oriented towards the clarity of functions and responsibilities within the organization. The principle of responsibility refers to compliance with existing regulations, both legal regulations and internal organizational regulations. Independence means that the organization is free from external influence, that is, intervention that can affect the objectivity and professionalism of the organization. Liability and equality relate to fair treatment, equal treatment, and the protection of shareholders. In the context of a cooperative, shareholders are members who include the capital of compulsory and voluntary deposits.

Good Corporate Governance principles can be implemented consistently and sustainably if there is a strong commitment of the corporate organs (Komite Nasional Kebijakan Governance, 2014). Implementation of the Corporate Governance System can create optimum oversight in the use of the resources of the company more effectively as well as have an internal role in the company's management. Application of the corporate governance system requires the company to inform the shareholders about the activities and conditions in reality so that the shareholder can make accurate decisions (Dwiputri, 2019). The shareholders in a cooperative are members of the cooperative itself.

A cooperative is an enterprise consisting of a group of people based on the principle of cooperation and the economic movement of citizenship based on family. Cooperation is carried out on a voluntary and open, democratic, fair, and independent basis. The primary goal of a cooperative is the common good (Presiden Republik Indonesia, 1992). There are several types

of cooperatives, such as consumption, distribution, production, service, and loan-saving cooperatives (Lestari et al, 2019).

Mwanja et al. (2014) conducted a study on the impact of good corporate governance on the performance of the Loan Savings Cooperation in the State of Kenya. The study used 33 cooperatives in Kakagema district and found that the governance of the cooperatives is necessary to improve the performance of loan savings cooperation. The four indicators used as elements of good corporate governance are transparency and accountability, shareholder involvement, policies and guidelines, and rewards and incentives.

Putra & Cipta (2021) also conducted a preliminary study of 12 loan savings cooperatives with a total of 36 respondents. This study was conducted to test the influence of good corporate governance on the financial performance of loan-saving cooperatives in Buleleng district. This study found that there is a positive and significant influence of good corporate governance on the financial performance of credit-keeping cooperatives in Buleleng district, so the better the application of the principles of GCG in the cooperative, the greater the corporate financial performance. Along with that, Yusma et al. (2021) conducted qualitative research by conducting interviews with several cooperatives in East Lombok. The results of the research showed that there were several factors that constrained the implementation of good cooperative governance, namely deviation from the authority performed by the manager, honesty and understanding of members, managers, and supervisors, compliance of members to carry out deployments, as well as supervisory functions that were not functioning properly.

3. Methodology

The data analysis in this study is quantitative and descriptive. Data collection techniques include observations, questionnaires, and interviews to strengthen the results of research analysis. The population in this study is the cooperation registered in the East Lombok Cooperation Service with the criteria of active cooperation. The number of cooperations registered at the East Lombok cooperation service as of March 2023 is 602, of which 305 are active cooperations and 297 are inactive cooperations. Out of 305 active cooperatives, the study took a sample of 33 cooperatives consisting of producer cooperatives, consumer cooperatives, marketing cooperatives, loan savings cooperatives, and service cooperatives that are spread across various locations in East Lombok.

The respondents in the study were 66, with one cooperative consisting of two respondents: one manager and one active member. The managers who responded to this study were the head, treasurer, or associate of the cooperative. The indicators of good corporate governance used in this study are in accordance with the principles established by the National Committee on Governance Policy (KNKG). These principles consist of five: transparency, accountability, responsibility, independence, and fairness and equality. To measure these principles, twenty questions are given to the respondents, so that each principle consists of four questions.

4. Results

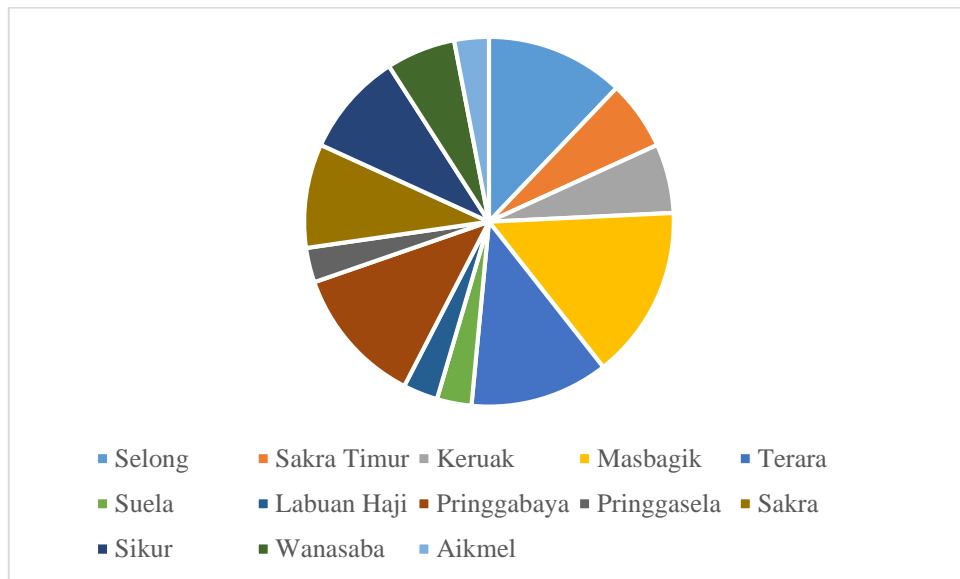


Figure 1. Cooperatives Area

Figure 1 shows the distribution of the territory or location of the cooperation of respondents in this study. There are 33 cooperatives spread over 13 districts in East Lombok. The largest number of respondents are those from a cooperative in the district of Masbagik, which has 10 respondents. The second order is the cooperative that is in the districts of Selong, Terara, and Pringgabaya, which has 8 respondents each. The district and the department are in the next order, with the number of respondents being six. Besides, East Sakra, Keruak, and Wanasaba are 4 respondents, respectively. The last were the districts of Suela, Labuan Haji, Pringgasela, and Aikmel, with two respondents each.

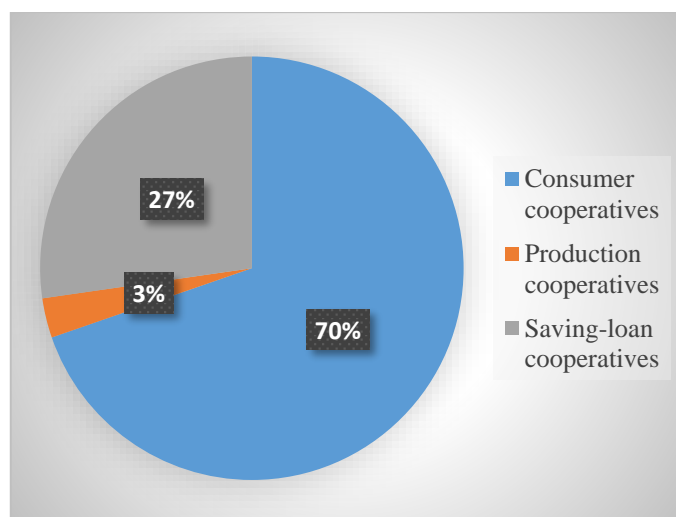


Figure 2. Types of Cooperatives

Figure 2 shows the proportion for the type of cooperation, where the dominant type of cooperation is in East Lombok, and the most common respondent in this study is a consumer cooperative. The number of consumer cooperations in this survey is 23, with a proportion of 70%. The second order is the conservation cooperation loan (27%, or 9 units). Whereas the

production cooperation that is quite rare is producer cooperation with a number of units of cooperative.

A consumer cooperative is a cooperative that provides consumer goods at a cheaper price for its members without neglecting quality (Lestari et al., 2019). The principle of mutual cooperation and family membership makes the cooperative not too concentrated on the magnitude of profit in the sale to its members. Goods sold by consumer operations are usually needed in everyday life. In this study, respondents came from as many as 23 cooperatives, or 46 respondents.

A production cooperative is a cooperative that holds the goods produced by its members, which are then handed over to distributors for sale to consumers (Salmato et al., 2023). A member of a cooperative is usually a UMKM or a farmer who has production or agricultural output. The goods covered are high-quality products that have characteristics and could potentially become a top commodity in the region (Siwi et al., 2020). Although it has a major area of consumer and production cooperatives, it usually also provides loan storage facilities to its members. That means consumer and producer cooperatives are also running credit-saving cooperatives. (Wibowo et al., 2019) also explained that a loan savings cooperative is an entity that has business activities such as receiving savings, giving loans, and redirecting its profits to members. This way of working proves that the cooperative works in accordance with its primary purpose, namely the welfare of its members. The difference between banking and a loan-saving cooperative is a lighter interest rate. This is because the cooperative was established with the aim of helping the economies of its members.

The principle of transparency in this research consists of the submission of financial and non-financial reports, components of financial reports compiled and informed to the members, the delivery of the work plan and RAPBK, as well as the submission of the model of the grant of SHU. The report of the financial and non-financial information must be submitted by the manager of the cooperative to the members of the cooperative as a manifestation of transparency in conducting the cooperative endeavors. The survey revealed that 86% of respondents said that their cooperatives delivered financial and non-financial information once a year, while the remaining 14% said that the information was submitted more than once a year. Members of a cooperative are societies with different backgrounds of profession, so holding a meeting of members is enough to do only once a year, given the different occupations.

A total of 90% of respondents stated that their cooperative has compiled the financial statements and submitted them to its members with the complete financial statement component. A total of 10% said that the cooperative did not produce or submit a full financial report to the members, i.e., did not make a record of the financial report and cash flow. Although the cooperation did not compile a complete financial report, including a listing of the entire number of residual results of the enterprise (SHU) members in it, the SHU is still distributed to members according to its proportions, only that the SHU is not disclosed publicly to all members. This shows that there are still 10% of the responses that are not transparent in the submission of the SHU (Komite Nasional Kebijakan Governansi, 2022; Menteri Koperasi & Usaha Kecil & Menengah, 2015). Furthermore, the Decree of the Minister of Cooperation No. 12 of 2017 also states that members have the right to vote in this planning through annual meetings or membership meetings. The results of the questionnaire showed that 94% of respondents stated that their cooperative submitted the work plan and cooperative income and expenditure budget plan (RAPBK) only once a year. This is because the work plan and RAPBK did not change in one year, so it was enough to submit only once. This happens if there are additions or revisions to the work plan and the RAPBK.

The benefits of the operations of the cooperative will be felt by its members through the provision of the residual results of the enterprise (SHU). Before being allocated to members, managers, supervisors, and employees, the remaining income of the venture must be reduced by the reserve fund. The allocation for acceptance of SHU is set in the cooperative basic budget (Menteri Koperasi & Usaha Kecil & Menengah, 2015). According to the results of this study, 62% of cooperatives explained the pattern of SHU giving to their members through oral and written means; 17% stated that they obtained information about SHU granting through written means; 18% said that they acquired information on SHU, and 3% stated they did not obtain information about the SHU awarding pattern.

A cooperative consists of cooperative managers, coordinators, supervisors, capital owners, and other stakeholders (Pramesti & Tandio, 2018). Some cooperatives simply have managers consisting of the chairman, the secretary, and the treasurer, who are the ones who know in detail the day-to-day operations of the cooperative. With so many parties involved, the cooperative must have clarity of function and responsibility. Separation of functions among cooperative managers can reduce the level of fraud that exists. This study showed that 3% of respondents answered that their cooperatives did not have a functional separation between managers, 14% stated that the separation of functions did not go well, and some tasks were still handled by the same person. Practice like this shouldn't have happened. Low accountability will lower profitability indirectly. This is because accountability has a positive influence on the investment will and the trust of stakeholders and prospective stakeholders in the cooperative. (Khafid & Nurlaili, 2017). The findings revealed that 36% of respondents believed that in reality, different people were already performing the various cooperative functions, and 47% believed that their cooperative had both practiced and imposed the separation of functions in written rules.

In addition to the separation of functions, a cooperative also requires details of the duties and responsibilities of the manager of the cooperative over the course of the cooperative. These duties and responsibilities must be known to all parties in the cooperative. Not far from the previous results, there are cooperatives whose members are unaware of the details of the duties and responsibilities of the manager, that is, 9% of respondents. While 6% of the respondents stated that they are aware of the details of the duties and responsibilities of the director, the details, such as tasks and responsibilities, change frequently. Furthermore, 41% stated that members were aware of the details of their duties and responsibilities but that they had not been set out in a written regulation.

In the cooperative business cycle, there should be a standard operating procedure (SOP) that becomes a reference or implementation procedure. In this section, the respondents have answers that are not very different. A total of 18% of respondents stated that their cooperative does not have an official SOP. All the activities are carried out without guidance. It can indicate that the same activity is run in a different sequence of activities because it does not have a standard. A total of 26% of respondents stated that the standard operating procedures that they operate are only oral from the leadership, with the same number of respondents also stating that they have a SOP but rarely have a review of the SOP. Most of the respondents answered that they already had a SOP and had a routine review to update according to the development of the cooperative, i.e., 30%. This number is not much different from the previous answer, and this percentage is very small to reflect the cooperatives with the best conditions.

Cooperatives also require guidance on what managers and members of the cooperative should and shouldn't do. Respondents also answered not much differently about the existence of SOPs. Of the 24% who stated that their cooperative did not have a code of conduct, 39% said that the code of behaviour was still oral, 15% said that there were behavioural guidelines but were rarely reviewed, and the remaining 21% said their cooperatives had a code that had been routinely

revised. Guidelines of conduct must exist so that managers and members can know what can and should not be done to maintain the stability and sustainability of the cooperative for the common good. A review should be done on a regular basis to stay updated on the current situation because there must be new things that can affect the behaviour of the cooperative stakeholders, so it can be determined whether or not to do so.

Responsibility in a cooperative can be associated with the responsibility of the manager to its members, as well as how the member pays the obligations to the cooperative. The manager must conduct the cooperation in accordance with the work plan and RAPBK and communicate the results to the members so that they can make the right decision (Pramesti & Tandio, 2018). In addition, the implementation of cooperative activities must, of course, obtain the approval of the members. In this study, it is known that 2% of respondents stated that their cooperative did not ask for the consent of members in carrying out its activities, and then 3% said that their cooperative indeed asked for the approval of members, but when there is a change, the cooperative does not communicate with its members.

Members of the cooperative have the obligations stipulated in Act No. 25 of 1992. In addition to these obligations, cooperative members also have the responsibility to issue mandatory and voluntary contributions, as well as to repay loans. The results of the survey showed that 62% of respondents stated that their cooperative members had repaid their loans on time, while 38% said that their cooperative members repaid loans beyond the specified time. Members' behaviour like this will hinder the development of the cooperative economy. The funds that were supposed to be available, either to run a business or to lend to other members, were less than planned. The results in this section show the responsibility of cooperative members in East Lombok is less massive.

The cooperative, in its business activities, generates profitability and gives the return of the residual outcome (SHU) to its members. Despite the delay of members in the repayment of loans, it turns out the cooperative is still able to pay the SHU on time. A total of 82% of cooperative respondents stated that their cooperative has paid SHU for members on time, while 18% of respondents said that their cooperative is late in paying SHU. The next responsibility of the manager of the cooperative is the submission of financial reports. The financial statements will be useful for members to determine the sustainability of their investments in the cooperative. If the cooperative submits its financial statements late, then the decisions made may become irrelevant anymore. Most cooperatives in East Lombok have already delivered their financial reports on time. Eighty-two percent of respondents said so. The remaining 18% stated that their cooperatives were late in submitting financial statements, ranging from one month, two months, to more than three months.

An interest collision in the cooperative shouldn't happen. This is because a cooperative is a mutual cooperation organization where the capital of the cooperative comes from its members. Election of managers free of pressure, registration of members, membership involvement, and joint decision-making are elements of independence in a cooperative. The results of the survey indicated that 73% of respondents stated that cooperatives in East Lombok mostly already have written rules on the election of directors and are implemented consistently. Furthermore, 8% and 6% of respondents stated that in their cooperatives there is still subjectivity in the election of managers and that they do not have any provisions for the selection of directors. This condition indicates that a small part of the co-operatives in East Lombok have not yet had independence, as there is still intervention and mass-based confidence in the election of their managers.

The cooperative itself may set its own rules regarding member registration, but those rules must be formally and in writing. It will reflect that the provisions are default and must be adhered to.

Independence on membership registration means that membership is not based on affinity or a close relationship with the manager, so anyone who qualifies can apply for cooperative membership. In this survey, 53% of respondents stated that their cooperative has written conditions of registration and is free from affinity or close relationships. Furthermore, 17% said that their registration cooperative is free of affinities and close relationships but has not been agreed upon in writing. Furthermore, 12% of respondents stated that their cooperative still had an element of affinity in the registration of their members, while 18% said that their cooperative had not even had a provision on membership registration. The absence of conditions for registration must make their membership vague and non-standard. It could be one factor in the lack of investment by new members because they are confused about membership registration.

Members' involvement in the preparation of work plans and decisions becomes something very important. 44% of respondents stated that their cooperative members often influenced the drafting of a work plan, and 48% said that their members were often involved in decision-making. In addition, there are cooperatives that never involve their members in the workplan and decision-making, a fairly high figure of 26% and 27%, respectively. In such a situation, members only have to receive the results of the work plan and the decisions taken by the manager. This is not in accordance with the principle of independence, where members are not free to give their responses to the manager. Despite this, there are also cooperatives that always involve members in the preparation of work plans, which is 21% of respondents, and another 9% stated that members' involvement in work plans is very rare. Compared to the reverse involvement of members in cooperative decision-making, 3% of respondents stated that their cooperatives always involve members in every decision, and 21% said that sometimes their cooperative involves members in decision-making. The figure of 3% for the best cooperative criteria is very small, while members are investors or owners of capital in the cooperative.

Fair and equal treatment in the fulfilment of stakeholder rights is worth more than cooperative. Access to the monitoring of cooperative activities, routine discussions, and patterns of granting SHUs are supportive aspects of liability and equality. Furthermore, special relations can be the cause of the lack of the principles of obligation and equality, so special relations should not be present in the management of the cooperative.

Access to cooperative activity monitoring can be made through meetings and reports provided. In cooperatives in East Lombok, access monitoring by members showed figures that were not very satisfactory. Respondents who stated that their cooperatives provided access through reports and meetings only showed a figure of 55%, then 15% said that access monitoring was only through reports, and 27% said that monitoring access was obtained through meetings. While 3% of respondents stated that their cooperatives did not give members access to monitoring at all. Under these conditions, the members of the cooperative are very passive and don't know much about the activities of the cooperative.

Meetings and discussion forums are meetings between managers and members. The results of this study showed that the majority of co-operatives in East Lombok, which is 73%, do it only once a year, while the other 27% stated that discussion forums were held more than once. It's a good thing, of course. Managers can communicate about their short-term activities and plans, while members can respond in the form of suggestions and feedback while monitoring and evaluating the cooperative. Thus, the supervisory function of the investor will work.

The study also analyzed the special relationship between managers. Respondents' answers indicated that cooperatives would provide fair treatment, with 70% of respondents stating that in their cooperatives there are only special relationships among managers below 25%. Secondly, 20% stated that their cooperative still has a 25%–50% special relationship among

directors. The remainder of 10% is special relations between directors above 75%. Justice and equality of cooperatives are also reflected in the pattern of SHU grant, whether there is a difference between manager and member. The results of this study show that 61% of the cooperative already adheres to the principle of fairness and equity, where there is no difference in SHU patterns for members and administrators. The SHU is based only on the total capital owned, either by the members or by the managers. 10% of respondents stated that the shape of SHU grants was the same, but there was a time difference where SHU for managers was given more priority. While a fairly high figure of 30% of the respondents said that the Shue granting pattern was different for managers and members.

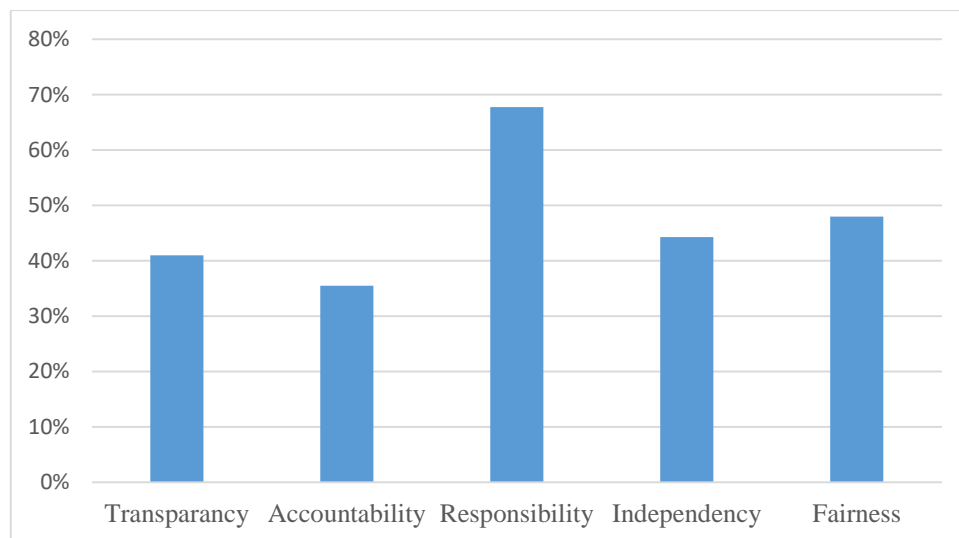


Figure 3. Corporate Governance in Cooperatives East Lombok

Figure 3 shows a comparison of the percentage of application of each principle of the existing governance in the Cooperative in the East Lombok. It can be seen that the principle of responsibility is the highest principle, and 67.75% of cooperatives already have good responsibilities. The second order is the principle of responsibility and equality, i.e., an average of 48% of the co-operatives have been cooperating fairly and equally between each of the existing stakeholders. The third order is independence, or independence of 44.25%. This indicates that 44.25% of cooperatives in East Lombok have no conflict of interest and are run professionally. Furthermore, 41% of cooperatives in East Lombok operate cooperatives transparently, where financial and non-financial information is obtained from all members, managers, supervisors, and employees. The lowest figure is in accountability, which is that only 35.5% of cooperatives have clarity about the functioning of the structure, system, and responsibility in its enforcement. The average of the overall governance principles is that 59.12% of the cooperatives have run well. This number is not a delightful one. Cooperatives in East Lombok should be able to improve their governance because governance has a significant influence on the financial performance of the cooperatives (Agustina et al., 2021; Wuryani & Yanthi, 2020).

5. Conclusion

This research is aimed at finding out the cooperative governance system in East Lombok that has been running all this time. With a sample of 33 cooperatives and 66 respondents, the study was conducted using quantitative descriptive methods. This cooperative consists of consumption, production, and borrowing. The results of this study show that the principle of

responsibility is the most widely applied principle by cooperatives in East Lombok, at 67.75%. Responsibility here relates to how managers and members perform their respective responsibilities. Managers' responsibilities are assessed by whether they seek members' consent to carry out their activities, make payments to the SHU on time, and submit financial reports on a periodic basis, while members' obligations relate to the accuracy of repayment of loans and payment of regular members' allowances. The principles of fairness or liability and equality, independence or independence, accountability or responsibility, and transparency do not result in a percentage exceeding 50%. So for the overall average, there are 59.12% of governance principles run by cooperatives in East Lombok. It is not a high value, so cooperatives in East Lombok should improve good cooperative governance according to its principles.

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