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Management of Cooperatives in Improving Financial Performance in East Java, Indonesia

Eni Wuryani
Department of Accounting, Faculty of Economics
Universitas Negeri Surabaya
Surabaya, Indonesia
eniwuryani@unesa.ac.id

Abstract— The purpose of this study is to analyze cooperative management in improving financial performance in East Java, Indonesia. Cooperative management in this study includes internal control, and the implementation of the annual member meeting (AMM). Financial performance is measured by a report on the calculation of cooperative operating results. Responsibility for collective management will be conveyed to AMM. AMM measurements are measured at the implementation of an annual member meeting. The research data uses secondary data in the form of financial reports and annual member meeting reports. The object of this study was 159 cooperatives in East Java, Indonesia. This study uses multiple regression analysis with SPSS. The results of internal control research have a significant influence on financial performance. The implementation of member meetings does not have a significant effect on financial performance.

Keywords—Cooperative Management, Financial Performance, Internal Control, Profit, AMM

I. INTRODUCTION

Cooperative organizations have specific characteristics compared to other organizations. Cooperative organizations have the principle of corporate profits that can be enjoyed by all members of the cooperative. Divided benefits are taken from reports on the remaining results of the business. The component of the story on the remaining business results is the cooperative income of the business minus the operating expenses of the cooperative. The financial performance of the collective management will be accountable to members at the Annual Member Meeting. The Annual Budget Meeting will discuss the achievements of the previous year's performance and the collaborative business budget plan. Cooperatives are microfinance institutions, having an intermediary function as fund-channeling fund collectors. Cooperative as a function of collecting funds through the payment of principal savings members, mandatory savings, and voluntary savings. Collaborative as a function of channeling funds through giving credit to members. The financial management of cooperatives must be fair, transparent, and accountable. Organizations are microfinance institutions. Microfinance institutions face a low risk of liquidity. Microfinance institutions have the potential to maintain liquidity. Microfinance institutions can operate activities in paying off obligations in the short term [1].

According to Law on Indonesian Cooperative No. 17 issued in 2012, a union is a legal entity established by individuals or legal organization. A cooperative has economic, social, and cultural aspects according to its principles. The main goal of a cooperative is to prosper its members. The union has intermediary functions to collect and distribute funds. Members save their money as maximum savings, mandatory savings, and voluntary savings. The principal conservation is the initial money given by the member when registering. Later, the members are possibly to borrow the funds (loan) based on its terms and conditions. No collateral is needed when they apply for the loan. This is one of a cooperative's characteristics as it meets the principles of a cooperative, that is, by and for members.

Essential savings, mandatory savings, and voluntary savings will add assets to the cooperative. The cooperative organizational structure consists of collaborative management and cooperative members. The management consists of the Chairperson, Secretary, Treasurer, and Supervisor. Operational activities are contained in the Cooperative Business Budget Plan, which was approved at the Annual Member Meeting. The highest authority is in the members of the cooperative because the policy changes must get the approval of the members through the Annual Member Meeting. Personnel in the organizational structure must run according to their respective duties and functions. Implementation of corporate governance can be carried out if all staff in the organizational structure perform tasks and functions correctly. Cooperative management must have an attitude of justice, independence, transparency, and accountability.

Collaborative management must be professional to improve performance. [2] Proper organizational management can give trust to the owner about the return on investment invested. In the cooperative, the owner is a member of the collective. Returns on investment in the form of organizations in the way of remaining business results — investment in cooperative members in the form of maximum savings, mandatory savings, and voluntary savings. The company will improve its financial performance and maintain the business performance that is achieved

well. The purpose of this study is to analyze the management of cooperatives in improving financial performance in East Java, Indonesia.

Individuals or groups can influence achieving goals [3] [4]. Stakeholder theory addresses the interests of various parties, which are based on specific interests. Stakeholder theory is a system based on organization and environment. Stakeholders and organizations influence each other, can be seen from the social relations of stakeholders and organizations in the form of responsibility and accountability. The application of stakeholder theory to cooperatives will have an impact on members, related agencies, surrounding communities. When unions develop, they affect the welfare of cooperative members. The Cooperative Office, as a collaborative coach, will continue to guide so that cooperatives continue to develop. The impact that is felt on the village community is not entangled in an interest bearing interest if they want to borrow. Required conditions only become members according to the rules that apply in the cooperative. The broader impact of reducing poverty in the village. Villagers who need capital can borrow from organizations without using collateral. This will help communities with low economies in business.

Within the cooperative organizational structure, there must be a division of tasks and authority, so that each function can carry out the work correctly and be accountable for the job. Clear duties and powers will facilitate the evaluation or monitoring of responsibilities and authorities. Assessment and monitoring are internal control efforts. [5] Applied financial controls will be more efficient using information systems. Information systems as a means of control in organizations. [6] Management accounting is a tool to achieve accountability and control in managing funding sources. [7] Internal control influences financial performance. Cooperatives carry out internal controls, including perspectives on cooperative activities, organizational and business supervision, supervision of financial capital. The implementation of internal controls will run well through the control environment, the application of competencies in cooperatives, the assignment of authority, responsibility, communication, and information. The control environment is the foundation for implementing internal controls. The control environment reflects all behavior, awareness of all elements in the cooperative [8] research on microfinance institutions on governance needs transparency. Research on microfinance institutions about an internal audit is high in minimizing corruption behavior. [9] information systems, company size, operating losses, and profits influence inspection. The examination has the effect of reducing fraudulent financial reporting systems. [10] Corporate governance in the areas of family ownership, concentration, self-dealing, executive compensation, and other issues. Excessive executive compensation, accounting, and audit weaknesses do not cause problems. [11] Corporate governance is influenced by internal and external factors.

Cooperative Law No. 17 of 2012 Cooperatives must report responsibly to members on the Annual Member Meeting Report. At the Annual Members' Meeting, the management says the activities of cooperative activities in the form of reports on remaining business results, statements of financial position, capital change reports and cash flow statements. At the annual membership meeting, the business budget plan will be approved for the following year. Members have an essential position in yearly member meetings. Members can provide input and assess the performance of cooperative management. [12] The composition of the management and commitment of members can contribute to better performance. [13] there is a significant relationship between CEO duality and company financial performance. This reflects the need to strengthen compliance with the Governance Code related to the duality status of the board of directors. There is a significant relationship between the size of the Board of Directors and the company's financial performance. This shows that larger council sizes are more effective in monitoring financial reporting. There is a significant relationship between Board of Directors meetings and company financial performance. This indicates that the Board of Directors' conference does not affect the company's performance. [14] The presence of women as directors can provide benefits to shareholders. Powerful Chief Executive Officer has a positive impact on the financial performance of Micro Finance Institutions (MFI). Gender diversity has a positive effect when balanced with gender diversity in management.

II. RESEARCH METHODS

This research uses census data. The research samples are 159 cooperatives in East Java, Indonesia. One hundred fifty-nine organizations from East Java Indonesia Data analysis using multiple linear regression with SPPS. Data is taken from the financial statements for 2016 - 2018. The measure of financial performance is based on the report on the remaining results of cooperative operations. Component of the calculation of the remaining business results, namely the difference in operating income and operating expenses. Cooperative management in this study includes internal control, and conducting member meetings. Internal control measurements using audit assessments by the Cooperative Supervisor. It measures the implementation of Annual Member Meetings for assessment when the Cooperative Management is responsible for operational activities for all members.

III. RESULT AND DISCUSSION

TABLE 1 DESCRIPTIVE STATISTICS

	N	Minimum	Maximum	Mean	Std. Deviation
Profit	159	1,E+07	1,E+08	6,E+07	4,E+07
IC	159	3,E+01	1,E+02	5,E+01	2,E+01
AMM	159	3,E+01	1,E+02	8,E+01	2,E+01
Valid N (listwise)	159				

TABLE 2. Coefficien Linear Test

Exogenous Variable	Endogeneous Variable	Estimation Coefficiens	t Statistic	P value	Discription
IC	Profit	-0,963	-5,067	0	Significant
AMM	Profit	0,072	0,379	0,705	Not Significant
Sig F change	0				
R Square Change	0,797				

Table 3 shows the F test of 0,000. The alpha 0.00 yield less than 0.05 shows an influential result. These results indicate test variables simultaneously has an effect on financial performance

Model :

$$FP = a + b_1IC + b_2\ AMM + e$$

Information:

IC = Internal Control

AMM = Annual member meeting

Discussion

Internal control

The linear regression results of internal control on financial performance produce alpha 0,000. This means that alpha less than 0.05 has a significant effect with a negative direction. This means that women's cooperatives that generate large profits internal supervision in cooperatives are still very weak, whereas women cooperatives that have small profits have large internal controls. Cooperative supervision has not gone well. The cooperative's financial performance went well due to the hard work of the executive board.

Implementation of Member Meetings

Regression results show the annual member meeting on financial performance produces alpha 0.705, this means alpha is higher than 0.05, does not have a significant effect. Implementation of member meetings in carrying out cooperative operations must be carried out according to the rules. Cooperatives that experience large profits and small profits must carry out annual member meeting activities as a responsibility in cooperative management. The responsibility of the board to members is not only at the annual member meeting but continuously in the cooperative's operational activities. The AMM will be accounted for in the previous year's cooperative revenue budget plan. The AMM discusses work programs for the following year. The management must be transparent and responsible in running the cooperative's operations

The results of this study support the stakeholder theory. Stakeholders will benefit from corporate governance implementation that improves performance. Cooperatives that perform well will help members and the surrounding community. Cooperative members can feel the results by obtaining business capital with low interest — the population before the collective borrowed money from loan sharks. More broadly, the existence of cooperatives can reduce poverty and improve the economy of the community. This study supports [15], [16] describes that corporate governance has a vital role in performance, in particular the implementation of internal control and the implementation of annual member meetings as a function of accountability.

IV. Conclusion

Cooperative management is needed to improve performance. The implementation of Cooperative management supports the principles of justice, independence, transparency, and accountability. Implementation of Cooperative management in cooperatives can be seen from the activeness of managers and members who support the operational responsibility of unions. Internal control hurts the financial performance of women's organizations. Cooperative administrators carry out collaborative operations by the guidelines so that even though the level of internal control is low, it does not make the management perform poorly so that financial performance continues to run well.

The implementation of member meetings does not influence financial performance. This means that the operational activities of the cooperative have gone well. The management of the cooperative has carried out the function well so that financial performance can increase. Profit or report on remaining operating results will increase with the active role of cooperative members. Business results reports will be reported at annual member meetings. In AMM, the remaining proceeds are distributed to members by the provisions. Cooperative members feel the benefits of profit sharing. Another advantage of cooperative members, borrowing money from a cooperative does not need to use asset guarantees.

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