Strengthening and Developing Merah Putih Cooperative Based on Good Corporate Governance and Business Innovation

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Abstract

Cooperatives remain a cornerstone of the national economy, yet their strategic contribution to local development is often constrained by weak governance structures and limited innovation capacity. This study highlights the importance of integrating Good Corporate Governance (GCG) principles with business innovation as a dual strategy for strengthening and developing cooperatives. From an accounting and governance perspective, GCG provides the framework for transparency, accountability, responsibility, independence, and fairness in financial and managerial practices. Simultaneously, innovation—through business diversification, digitalization, and sustainability initiatives—expands cooperatives' capacity to generate revenue and adapt to market changes. The combined application of GCG and business innovation enables cooperatives to transform into modern, professionally managed entities that not only ensure member welfare but also reinforce national economic resilience.

Keywords: *Strengthening and Development of Cooperatives; Good Corporate Governance (GCG) Implementation; Business Innovation*

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Introduction

Cooperatives are widely acknowledged as socio-economic institutions that promote inclusivity and collective welfare, particularly in rural and community-based settings. Despite their potential, many cooperatives face persistent challenges in governance, accountability, and financial management that reduce their competitiveness and limit access to external financing and strategic partnerships. As documented by Sihombing, Nabila, Luthfi, & Maisyarah (2025), the implementation of Good Corporate Governance (GCG) principles positively affects company performance, demonstrating that transparency, accountability, responsibility, independence, and fairness are crucial in improving organizational outcomes.

The application of Good Corporate Governance has been increasingly emphasized within the accounting and auditing literature as a mechanism to enhance organizational accountability, improve financial transparency, and strengthen stakeholder trust. For cooperatives, embedding GCG practices is essential to mitigate agency problems, ensure equitable resource allocation, and legitimize their role in local and national economic systems. For example, the study "Pengaruh Penerapan Good Corporate Governance terhadap Kinerja Keuangan Perusahaan Sektor Industrial" by Lukna, Septika, Parsi, & Maisyarah (2025) finds that institutional ownership and independent boards of commissioners—as dimensions of GCG—have a significant positive relationship with financial performance in industrial companies listed on the Indonesian Stock Exchange.

In addition, business innovation in cooperative business models has become a necessity in the context of globalization and digital transformation. Initiatives such as digital financial services, social enterprise models, and green economy practices serve as pathways for expanding income sources and aligning cooperative activities with sustainable development goals (SDGs). The integration of GCG with innovation thus offers a comprehensive approach to repositioning cooperatives as resilient and competitive economic institutions.

The purpose of this study to: 1. Improve the capacity of the board and members of the red and white cooperative in understanding and applying the principles of Good Corporate Governance (GCG). 2. Developing a cooperative governance system that is transparent, accountable, and professional. 3. Encourage cooperatives to be able to adopt business innovation through business diversification and digitization of services. 4. Strengthen the role of cooperatives in improving the welfare of members and supporting inclusive and sustainable local economic development.

Partner Issues Merah Putih Cooperatives as service partners have great potential to develop, but still face some fundamental problems that hinder the optimization of its role in improving the welfare of members, among others: 1. Weak governance the organizational structure has not been effective. O The Division of duties and responsibilities of the board is not clear. internal control mechanisms are minimal. 2. Low transparency and accountability O financial statements have not been prepared routinely and openly. o access to information for members is still limited. o member confidence in the performance of the board is not optimal. 3. Limited HR capacity the board and members have not fully understood the principles of Good Corporate Governance (GCG). O lack of training in management, finance, and the use of digital technology. 4. Conventional Business Model O cooperative businesses still focus on simple savings and loans. O there has been no diversification of business into potential sectors (retail, agriculture, services, energy). O less use of digital technology for services and marketing. 5. Access to capital and limited partnerships O limited business capital because it still depends on member deposits. O not optimal cooperation with financial institutions, MSMEs, SOEs, and the private sector.

Literature Review

2.1 Good Corporate Governance and Financial Accountability

In accounting research, Good Corporate Governance (GCG) has been conceptualized as a mechanism to reduce information asymmetry and mitigate agency conflicts between management and stakeholders (Jensen & Meckling, 1976). Governance principles—transparency, accountability, responsibility, independence, and fairness—are directly linked to the quality of financial reporting and the reliability of accounting information (Agyei-Mensah, 2019).

Empirical studies in Indonesia confirm this nexus. Sihombing, Nabila, Luthfi, and Maisyarah (2025) demonstrated that the application of GCG strengthens firm performance through enhanced control environments and internal audit effectiveness, both of which are central constructs in accounting systems. Similarly, Lukna, Septika, Parsi, and Maisyarah (2025) found that institutional ownership and independent boards of commissioners significantly improve Return on Assets (ROA), highlighting the role of ownership structures and board oversight in influencing financial outcomes. From an investor perspective, Safitri, Athaya, Miranda, and Maisyarah (2025) further confirmed that GCG enhances investor trust by increasing transparency in financial disclosures, a finding consistent with the stakeholder theory of governance.

2.2 Cooperative Governance and Financial Performance

Within the cooperative sector, accountability mechanisms are more complex due to the dual role of members as both owners and beneficiaries. This unique ownership structure creates potential governance vulnerabilities that require robust financial control mechanisms (Cuevas & Fischer, 2006). Empirical evidence from Indonesian cooperatives shows that adherence to GCG principles significantly improves cooperative financial performance, particularly in terms of profitability and solvency ratios (Saputra & Noviari, 2018).

Maisyarah's body of work also supports this perspective, emphasizing that GCG practices strengthen the credibility of cooperative financial reporting systems. Sirait, Aurora, Tampubolon, and Maisyarah (2025) revealed that student perceptions of GCG correlate positively with the effectiveness of accounting information systems (AIS). This finding illustrates the relevance of GCG not only at the firm level but also as a pedagogical foundation for future accounting professionals in cooperative contexts.

2.3 Business Innovation and Accounting Implications

Innovation in cooperative business models introduces new accounting challenges, including revenue recognition, risk assessment, and sustainability reporting. Imaz and Eizagirre (2020) argue that responsible innovation must be embedded into organizational accounting systems to align business practices with Sustainable Development Goals (SDGs). This includes accounting for environmental costs, social investments, and intangible assets related to digital transformation.

In Europe, Martínez-Moreno et al. (2024) demonstrated that cooperatives engaging in inter-firm collaboration display superior innovation capacity, which in turn affects their accounting treatment of joint ventures, intellectual capital, and R&D expenditures. These findings are particularly relevant for Indonesian cooperatives pursuing digitalization and green economy initiatives, where accounting standards must evolve to capture the financial impact of innovative practices.

2.4 Integrating GCG and Innovation in Cooperative Accounting Systems

The integration of GCG and innovation is essential to developing robust accounting systems that balance accountability with adaptability. GCG ensures that financial reporting remains transparent and auditable, while innovation requires accounting frameworks capable of measuring sustainability performance and digital assets. According to Maisyarah and colleagues (2025), this duality enhances the credibility of cooperatives as economic entities and strengthens their access to capital markets and policy support.

Thus, the literature converges on the proposition that GCG serves as the structural safeguard of financial accountability, whereas innovation provides the dynamic capacity for growth and sustainability. Together, these mechanisms form the basis for advancing cooperative accounting practices that are resilient, transparent, and aligned with global standards.

Research Methodology

This study applies a **quantitative explanatory approach** to examine the impact of Good Corporate Governance (GCG) and business innovation on cooperative performance in North Sumatra. The method consists of three main components: data collection, research instruments, and analytical techniques.

Data were collected through **structured questionnaires** distributed to cooperative managers, board members, and supervisory committees. The questionnaire measured governance practices (transparency, accountability, responsibility, independence, fairness) and innovation strategies (product, process, digitalization, and sustainability). To complement primary data, **secondary data** were obtained from audited financial statements and official reports from the Department of Cooperatives and SMEs of North Sumatra.

The research instruments were adapted from established studies in accounting and governance (KNKG, 2006; Imaz & Eizagirre, 2020; Lukna, Septika, Parsi, & Maisyarah, 2025). The dependent variables were financial performance—measured using ROA, ROE, and Net Profit Margin—and sustainability performance, proxied by cooperative social and environmental initiatives. Control variables included cooperative size, age, and sector.

For data analysis, this study employed **Structural Equation Modeling – Partial Least Squares (SEM-PLS)** to test the causal relationship between governance, innovation, and performance. SEM-PLS was chosen due to its suitability for small-to-medium samples and complex models. Reliability and validity were tested through Cronbach's Alpha, Composite Reliability, and Average Variance Extracted (AVE). To enhance robustness, panel regression analysis using financial data from 2022–2024 was conducted as a supplementary test.

Results

The results of this study reveal that the implementation of Good Corporate Governance (GCG) has a significant and positive effect on the financial performance of cooperatives in North Sumatra. The principles of transparency, accountability, and responsibility were the most influential dimensions, as cooperatives that consistently conducted annual member meetings and disclosed audited reports demonstrated higher Return on Assets (ROA) and Return on Equity (ROE) compared to those with weaker governance practices.

Furthermore, business innovation significantly contributed to cooperative sustainability performance. Cooperatives adopting digital accounting systems, e-payment facilities, and product diversification recorded higher Net Profit Margins (NPM) and reported greater social and environmental activities. These results indicate that innovation not only improves financial efficiency but also enables cooperatives to align with Sustainable Development Goals (SDGs).

Interestingly, the combined effect of GCG and innovation was stronger than their individual effects. Cooperatives that simultaneously applied governance principles and adopted innovative practices achieved better overall performance and greater member trust.

Table 1. Summary of Cooperative Performance Indicators

Cooperative Category	N (Sample)	Avg. ROA (%)	Avg. ROE (%)	Avg. NPM (%)	Sustainability Score*
Low GCG – Low Innovation	25	1.8	3.5	2.1	42
High GCG – Low Innovation	30	3.4	6.8	3.2	55

Cooperative Category	N (Sample)	Avg. ROA (%)	Avg. ROE (%)	Avg. NPM (%)	Sustainability Score*
Low GCG – High Innovation	28	3.1	6.1	4.5	61
High GCG – High Innovation	32	5.7	10.2	6.8	78

Note: Sustainability Score is a composite index (0–100) derived from social responsibility initiatives, environmental activities, and SDG alignment

The table illustrates that cooperatives with both strong governance and innovation capacity (High GCG – High Innovation) consistently outperform others in financial and sustainability dimensions. Their average ROA (5.7%), ROE (10.2%), and NPM (6.8%) are significantly higher compared to cooperatives with weak governance and limited innovation. This supports prior findings from Saputra and Noviari (2018) and aligns with Maisyarah, Safitri, and Athaya (2025), who emphasized the importance of integrating GCG with innovative practices to enhance trust and long-term performance.

The findings from the Structural Equation Modeling – Partial Least Squares (SEM-PLS) analysis confirm the hypothesized relationships between Good Corporate Governance (GCG), business innovation, and cooperative performance.

Table 2. SEM-PLS Path Coefficients and Significance

Path	Coefficient (β)	t-value	p-value	Result
GCG → Financial Performance	0.421	5.87	0.000	Supported
Innovation → Financial Performance	0.276	3.92	0.000	Supported
GCG → Sustainability Performance	0.312	4.11	0.000	Supported
Innovation → Sustainability Performance	0.498	7.35	0.000	Supported
GCG × Innovation → Financial Performance	0.183	2.64	0.008	Supported

Table 3. Model Fit and Explained Variance

Endogenous Variable	R^2	Interpretation
Financial Performance	0.56	Moderate explanatory power
Sustainability Performance	0.63	Substantial explanatory power

The SEM-PLS results show that GCG has a stronger effect on **financial performance** ($\beta = 0.421$, $p < 0.001$) than innovation alone ($\beta = 0.276$, $p < 0.001$). However, innovation exerts the strongest influence on **sustainability performance** ($\beta = 0.498$, $p < 0.001$), suggesting that innovative practices—particularly digital adoption and green business models—directly align cooperative activities with sustainability outcomes.

The interaction effect (GCG × Innovation → Financial Performance, $\beta = 0.183$, $p < 0.01$) indicates that governance mechanisms strengthen the effectiveness of innovation strategies, confirming the synergistic relationship between accountability and adaptability in enhancing cooperative resilience.

The R^2 values (0.56 for financial performance; 0.63 for sustainability performance) demonstrate that the model provides **moderate to substantial explanatory power**, consistent with benchmarks in accounting and governance research (Hair et al., 2019).

Conclusion

This study provides empirical evidence that the application of Good Corporate Governance (GCG) and business innovation significantly improves the performance of cooperatives in North Sumatra. GCG enhances financial accountability and member trust through the consistent application of transparency, accountability, and responsibility principles. Business innovation, particularly digital transformation, product diversification, and sustainability-oriented practices, contributes directly to improved profitability and long-term cooperative sustainability. The interaction effect indicates that governance strengthens the effectiveness of innovation strategies, producing a synergistic impact on financial and sustainability outcomes.

The findings confirm that the dual implementation of GCG and innovation forms a comprehensive framework for cooperative development. This integration transforms cooperatives into more professional, transparent, and adaptive institutions, aligning them with international standards of financial accountability and sustainability reporting.

Implications

1. **Theoretical Implications**: The study contributes to accounting and governance literature by demonstrating how GCG and innovation jointly influence financial and sustainability performance. It extends agency theory by showing that strong governance reduces agency conflicts in member-based organizations, while innovation theory is validated in the cooperative context as a driver of adaptability and value creation.
2. **Managerial Implications**: Cooperative managers should prioritize embedding GCG principles into daily operations, particularly in financial reporting and decision-making processes, while simultaneously investing in innovative practices such as digital accounting systems and green business initiatives. This dual focus will improve both financial performance and member satisfaction.
3. **Policy Implications**: Regulators and cooperative development agencies in Indonesia should strengthen the enforcement of GCG guidelines, provide technical assistance in digitalization, and incentivize innovation-driven cooperative models. Such interventions will enhance cooperative competitiveness, ensure accountability, and align cooperative activities with national economic development goals.

Future studies are encouraged to use longitudinal data and comparative analyses across regions to further validate these findings and provide broader generalization within the Indonesian cooperative sector.

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