
THE ROLE OF COOPERATIVE MODEL AS MODERATION ON EFFECT OF CORPORATE GOVERNANCE ON PERFORMANCE

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ABSTRACT: *The research objective analyzes the effect of corporate governance, entrepreneurship, and the culture of innovation on the performance that is moderated by the cooperative business model. The object of research in the small business (SMEs) in the Kenjeran tourist area of Surabaya in Indonesia. The research samples, of sixty-three SME respondents from four types of businesses. Primary data were analyzed using structural equation modeling – partial least squares (SEM–PLS) software. The results showed that the cooperative business model strengthens the effect of entrepreneurship and a culture of innovation on performance. The effect of corporate governance is not directly on performance but through entrepreneurship. While the culture of innovation does not directly affect the performance of SMEs.*

KEYWORDS: Corporate governance, innovation, entrepreneurship, performance, cooperation.

INTRODUCTION

Small and medium enterprises (SMEs) have an important role in the development of the country because as a creator of employment. Employment as a solution to overcome the number of unemployed in various countries including in Indonesia (Eniola and Entebang, 2015). The Indonesian economy is dominated by SMEs (Manalu *et al.*, 2019), so policymakers are very important to encourage the growth of SMEs. One important factor driving the growth of SMEs is the performance of SME businesses (Hosseini *et al.*, 2019).

Innovation culture is influenced by human capital and will positively influence entrepreneurial orientation. Therefore, the performance of SMEs is largely influenced by a culture of innovation and entrepreneurship (Donkor *et al.*, 2018). Surabaya Kenjeran tourism area as a coastal tourism area has no less than 86 SMEs with various types of businesses. The average tourist visit every year is almost 1.3 million, this number represents 25% of the total visits in Surabaya of 5.3 million (Soebandi *et al.*, 2018). The potential of the region and tourist visits have not reflected the business performance achievements of SMEs.

In resource-based view that innovation and entrepreneurial strategies are needed to combine internal resources in achieving performance. Therefore, the corporate governance strategy that is implemented appropriately by SMEs has the opportunity to increase its growth (Günay and Apak, 2014). SMEs in this region always apply the principle of caring for the community and discussions with SME partners in their business problems. Democratic principles and caring for the community according to the definition of cooperatives (Novkovic, 2006), and according to the principles of the people's economy with the principle of kinship in cooperatives (Law, 2012). Cooperative business models assist SMEs in finding mutually agreed solutions (Braccini *et al.*, 2012).

With the background above, this study analyzes the effect of corporate governance on performance with the variables of innovation and entrepreneurship as antecedents and the cooperative model as moderating.

LITERATURE STUDY AND HYPOTHESIS DEVELOPMENT

Literature study

A literature review that outlines the support of relevant theory includes resource-based view theory and agency theory. Resource-based view theory states that companies are seen as a collection of resources that must be optimized for competitive advantage. The transformation process can use media innovation or entrepreneurship for SMEs in facing competition. Innovation is a way to choose sources of internal or external innovation before actual innovation is carried out (Rosli and Sidek, 2013). Innovation manifested in products require entrepreneurial orientation, which can further achieve SME performance.

Agency theory that in managing a company there is a separation between owner and manager, which in turn creates information gaps. For the manager of information owned more than the owner, and for the manager of the use of information to maximize interests. Utilization of information by managers often ignores the interests of the owner, so the company's goals are not achieved. To achieve the company's overall objectives, it is necessary to arrange systems and processes, known as corporate governance. The right corporate governance strategy implemented by SMEs will provide opportunities for increased growth (Günay and Apak, 2014).

Research model

The research model was developed from a literature review and the results of previous studies with hypotheses arranged as in Figure 1.

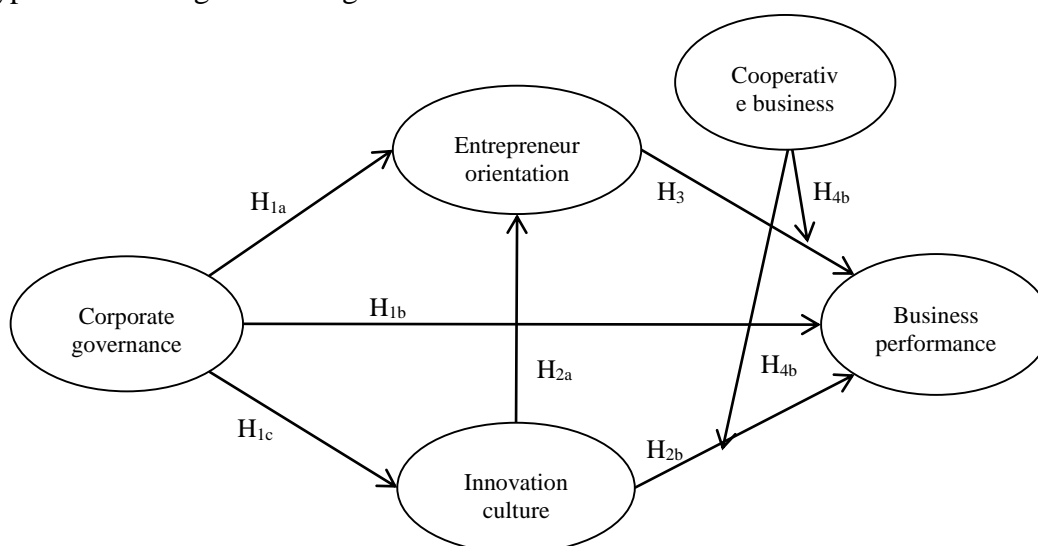


Figure 1. Research Model

Hypothesis development

Development of hypotheses with relevant theoretical foundations and the results of previous studies that support the direct influence between variables, and the influence of moderating

variables. Corporate governance as a system and procedure comprehensively directs the goals of the company. Transparency and accountability aspects are important aspects (NGPC, 2006) in influencing an entrepreneurial-oriented environment through creativity. Empirical studies of corporate governance practices by openly recruiting experienced international CEOs are more related to corporate entrepreneurship (Wei and Ling, 2015). The corporate governance perspective explains the variation in SME entrepreneurship driven by the goals and motivations of its leaders (Deb and Wiklund, 2017). Therefore, a hypothesis is drawn up:

H_{1a}: Corporate governance has a positive effect on entrepreneurial orientation.

Intense corporate governance minimizes information asymmetry so that the implementation of corporate governance in SMEs significantly and positively influences competitiveness and performance (Hove-sibanda *et al.*, 2017). Proxies of corporate governance with institutional ownership have a positive effect on return on investment (Mai, 2017), and corporate governance measured composite is a good predictor of corporate performance (Mishra and Mohanty, 2014). Therefore, a hypothesis is drawn up:

H_{1b}: Corporate governance has a positive effect on business performance.

Innovation is the implementation of new products (services) that increase significantly and is related to the utilization of the value of ideas (Dewangan and Godse, 2014). Innovation is often measured with research and development expenditure, to provide tax incentives for SMEs. Empirical studies find that corporate governance and ownership influence innovation activities more strongly when innovation is measured by patent activity, rather than selling new products (Shapiro *et al.*, 2014). Three main channels, corporate ownership, and corporate finance, and employees through the corporate governance system shape the company's innovation activities (Belloc, 2012). A positive argument is found in the relationship between corporate governance and innovation (Asensio-lópez *et al.* 2018). Therefore, a hypothesis is drawn up:

H_{1c}: Corporate governance has a positive effect on the culture of innovation.

Performance measurement of innovation clarifies how to use measures to determine what needs to be improved (Saunila, 2017). Innovation culture is an important factor in entrepreneurial activities (Rosli and Sidek, 2013) because culture values behavior related to creativity (Terziovski, 2010). Empirical studies find that innovation is part of the entrepreneurial dimension of orientation (Lumpkin and Dess, 2001). Innovation strategies have an important role in linking workers' knowledge of the development of greater products through entrepreneurship (Kach *et al.*, 2015). Innovation activities in the owner's restaurant and entrepreneurship positively influence performance (Lee *et al.*, 2016). Therefore, a hypothesis is drawn up:

H_{2a}: Culture of innovation has a positive effect on entrepreneurial orientation.

Innovation is an idea or ideas that are transformed into company performance. Innovations in products, processes, and management have a positive effect on SME business performance (Maldonado-Guzmán *et al.*, 2018). Innovation significantly affects the performance of SME organizations positively and contributes more than fifty-one percent of the variation in the performance of SME organizations. Therefore, SME managers pay important attention to the implementation of innovation activities in the company (Acquah and Boachie-Mensah, 2015).

Empirical studies find that innovation positively influences company performance (Nguyen *et al.* 2018). This shows that at a high of innovative capacity, a strategic objective enhances financial performance on a large scale (Donkor *et al.*, 2018). Culture and innovation strategies are highly aligned throughout the entire innovation process (Terziovski, 2010), and market innovation is positively related to company growth (Varis and Littunen, 2010). Therefore, a hypothesis is drawn up:

H_{2b}: Culture of innovation has a positive effect on business performance.

The entrepreneur orientation dimension is useful for an entrepreneurial approach in developing strategies when the organization is in a competitive environment (Lumpkin and Dess, 2001). Entrepreneurial orientation (EN) consists of five dimensions: (1) autonomy, (2) innovation, (3) risk-taking, (4) proactive, and (5) competitive aggressiveness (Lumpkin and Dess, 2001). This research uses a proactive two-dimensional approach and competitive aggressiveness. Entrepreneurship orientation as a strategic orientation for SMEs. Empirical studies show that six out of ten strategic orientation variables are statistically significant with SME performance (Sarker and Palit, 2015). In the resource-based view approach that entrepreneurship orientation influences the performance of SMEs. Proactive entrepreneurship orientation is positively correlated with business performance and is beneficial for planning towards entrepreneurship development (Fairoz *et al.*, 2010). Therefore, a hypothesis is drawn up:

H₃: Entrepreneur orientation has a positive effect on business performance.

Cooperatives in the business model consist of several SMEs whose business activities can be in the form of services, product marketing or financial needs (Law, 2012). The most important value for all types of cooperatives is a democracy, while the principle of caring for society has a high weight in defining cooperative differences (Novkovic, 2006). Empirical studies of cooperative business models have helped many different partners to successfully blend into shared and agreed solutions (Braccini *et al.*, 2012). Therefore, the cooperative model will strengthen the influence between variables, so that a hypothesis is prepared:

H_{4a}: Cooperative business model moderates the influence of entrepreneur orientation on business performance.

H_{4b}: Cooperative business model moderates the influence of innovation culture on business performance.

METHODOLOGY

Samples and data collection

The surveys research object took respondents from small and medium businesses in the Kenjeran tourist area of Surabaya.

Table 1. Demographics of respondents (N=63)

Indicators	Description	Total	Percent
Business type	: Marine service / sea	9	14%
	Services culinary	26	41%
	Souvenir center & services souvenir	20	32%
	Entertainment service	8	13%
Length of business	: < 5 years	10	16%
	6 – 10 years	21	33%
	11 – 15 years	26	41%
	> 15 years	6	10%
Age	: < 21 – 30 years	13	21%
	31 – 40 years	24	38%
	> 41 years	26	41%
Nature of business	: Main business	35	56%
	Part-time business	19	30%
	Other people's ownership	9	14%

Data collection uses a questionnaire given directly to SMEs as a sample. The sample of 63 respondents was dominated by women as much as sixty-three percent, the rest were male, with demographic respondents such as Table 1.

Respondents based on their four types of business were dominated by culinary service businesses and souvenir centers and as many as 73%. Based on the length of the business as much as 74% or the majority of respondents have been trying for more than six years. Based on age dominated by more than 31 years as much as 79%. From the perspective of business ownership, the majority of respondents are either primary business or livelihood.

Measurement of variables

Measurement of variables using a questionnaire modified from previous researchers, such as Table 3. Likert scale 1-5 used as 1= very low and 5= very high.

Table 2. Variables operational definition

Variables	Indicators and Instruments	Code
Corporate governance (CG) (NGPC, 2006)	1. Every month the results of operations are informed to employees	CG01.
	2. The price of each item/ service is listed on the price list board	CG02
	3. Annual targets by the owner and accountable employees	CG03
	4. Improve employee competencies according to their responsibilities	CG04
	5. Reasonably and maintain the environment, minimizing waste	CG05
	6. Objectively, and without pressure from any party.	CG06
	7. Paying attention to stakeholders inequality & fair	CG07
Entrepreneur orientation (EN) (Lumpkin and Dess, 2001)	1. Usually, start an action later in the competitor's response.	EN01
	2. Always the first to introduce new products/ services.	EN02
	3. Leading ahead of competitors in introducing new ideas/ products.	EN03
	4. Always trying to get out of the business competition.	EN04
	5. Usually, adopt to replace competitive competitors.	EN05

Innovation	1. Appreciate behavior related to creativity and innovation.	IC01
Culture	2. Encourage informal employee meetings and interactions.	IC02
(IC)	3. Encourage employees to monitor their performance.	IC03
(Terziovski,	4. Constantly experimenting with new ways.	IC04
2010)	5. Encourage employees to share knowledge.	IC05
	6. Focus on the long-term performance of teamwork.	IC06
Cooperation	1. My company has unlimited customers.	MC01
Model	2. In business management carried out democratically.	MC02
(CM)	3. Repeated customers get discounts as economic benefits.	MC03
(Law, 2012)	4. Make business decisions autonomously without intervention.	MC04
	5. Continually engage employees in skills development.	MC05
Business	1. Overall customer satisfaction is very high.	PE01
Performance	2. Maintain loyal customers.	PE02
(PE)	3. Always try to increase sales growth.	PE03
(Lumpkin and	4. Increase sales to existing customers.	PE04
Dess, 2001)	5. Business profitability is very high.	PE05

Technique analysis

The analysis technique uses structural equation modeling software – partial least squares (SEM-PLS). This analysis technique was chosen, because of the small amount of respondent data and primary data testing which has the complexity of the testing model.

RESULT

Measurement model

The measurement model of each indicator shows in Figure-1 that the loading factor is not all indicators in the model meet the criteria above 0.7. The construct of corporate governance on the indicators CG01 and CG03 are dropped. The entrepreneur constructs on the EN05 indicators is also dropped. The constructs of innovation culture on the indicators IC04 and IC06 were also dropped. The cooperative model constructs on the indicators MC03 and MC05 are dropped. The construct of business performance on the indicators PE02 and PE04 was also dropped. Interaction variables also have several indicators dropped because they have a loading factor below 0.70. After several indicators that do not meet the criteria are dropped, all indicators in the constructs model meet reliability.

Evaluation of reliability and validity as in Table-3 shows that average variance extracted (AVE) and composite reliability show values above 0.60, which means a reliable measurement model. While discriminant validity shows that the root (square root of AVE) is printed in bold for each construct above the correlation value between constructs, which means that the measurements in the model are valid.

Table 3. Reliability and validity

Variables	AVE	Compo site	R ²	Square root of AVE & Intern coor.							
				CG	EN	IC	CM	PE	IeM	IcM	
<i>Corp.governance</i> –CG	0.70	0.92		0.84							
Enterpreneurships –EN	0.72	0.91	0.91	0.49	0.85						
Innovation culture –IC	0.68	0.90	0.74	0.33	0.58	0.83					
Cooperation business –CM	0.69	0.87		0.43	0.46	0.48	0.83				
Business performance –PE	0.81	0.93	0.87	0.46	0.53	0.41	0.58	0.90			
Interaction ENxCM –IeM	0.61	0.86		0.38	0.24	0.38	0.62	0.35	0.78		
Interaction ICxCM –IcM	0.62	0.91		0.42	0.36	0.49	0.37	0.39	0.42	0.79	

Structural model evaluation

The structural model in Figure-2 evaluates the model of each construct as a test between constructs and moderation testing. Whereas hypothesis testing is presented in Table 4. The results of testing each hypothesis as in Table-4 are as follows:

H_{1a}: Corporate governance (CG) has a positive effect on entrepreneurial orientation (EN) showing a value t-statistic of 5.656 which means it is significantly accepted.

H_{1b}: Corporate governance (CG) has a positive effect on business performance (PE) showing a value t-statistic of 1.612 which means it is rejected.

H_{1c}: Corporate governance (CG) has a positive effect on the culture of innovation (IC) showing a value t-statistic of 9.036 which means it is significantly accepted.

H_{2a}: Culture of innovation (IC) has a positive effect on entrepreneurial orientation (EN) showing a value t-statistic of 3.831 which means it is significantly accepted.

H_{2b}: Culture of innovation (IC) has a positive effect on business performance (PE) showing a value t-statistic of 2.359 with a negative coefficient which means rejected.

H₃: Entrepreneur orientation (EN) has a positive effect on business performance (PE) showing a value t-statistic of 3.523 which means it is significantly accepted.

H_{4a}: Cooperative business model (CM) moderates the influence of entrepreneur orientation (EN) on business performance (PE), with interaction (IEM) showing a value t-statistic of 2.217 which means it is significantly accepted.

H_{4b}: Cooperative business model (CM) moderates the influence of innovation culture (IC) on business performance (PE), with interaction (ICM) showing a value t-statistic of 1.623 which means it is rejected.

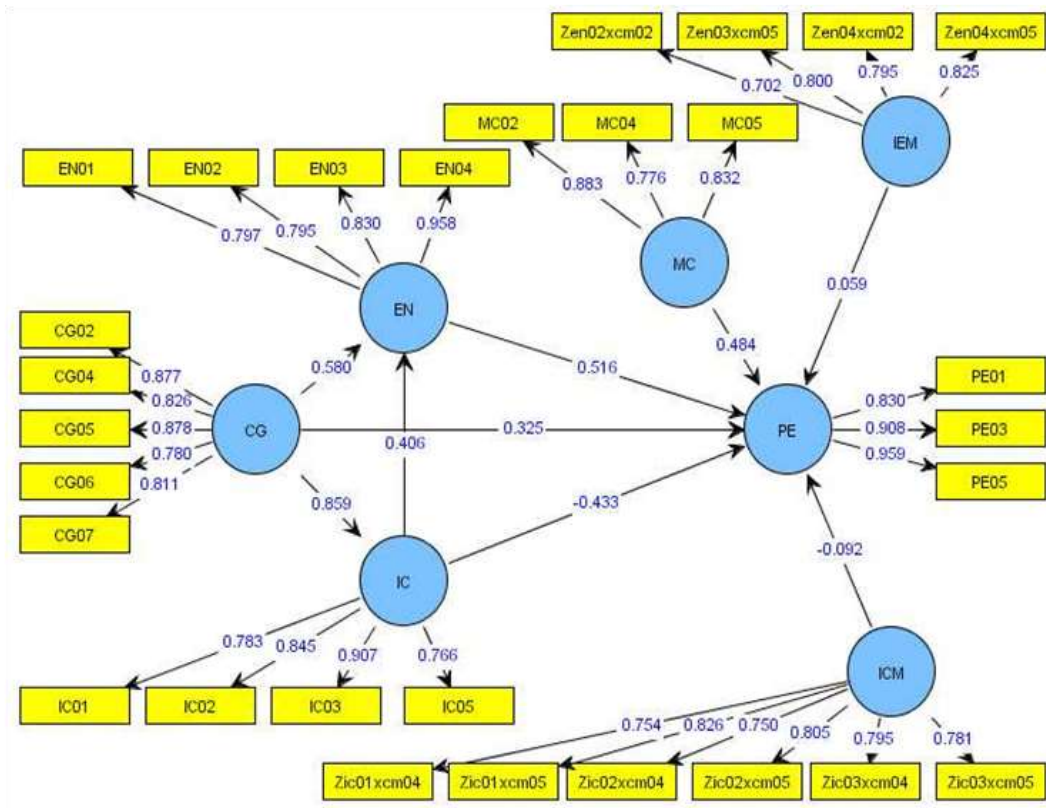


Figure 2. Structural Model

Table 4. Inner model evaluation

Hypothesis	Step	Constructs	β – Coefficient	T-Statistics	Level sign	R ²	Result Test Hypothesis
<i>Overall test (non interaction):</i>							
H _{1a}		CG → EN	0.580	5.656	0,005	0.906	Accepted
H _{1b}		CG → PE	0.325	1.612	Not sign	0.865	Rejected
H _{1c}		CG → IC	0.859	9.036	0,003	0.737	Accepted
H _{2a}		IC → EN	0.406	3.831	0.014	0.906	Accepted
H _{2b}	V	IC → PE	-0.433	2.359	Not sign	0.865	Rejected
H ₃	II	EN → PE	0.516	3.523	0.019	0.865	Accepted
<i>Partial test of moderating with interaction:</i>							
H _{4a}	I	EN → PE	0.484	4.825	0.008	0.712	Accepted
	III	IEM → PE	0.059	2.217	0.035	0.865	
H _{4b}	IV	IC → PE	0.705	3.109	0.003	0.614	Rejected
	VI	ICM → PE	-0.092	1.623	Not sign	0.681	

Source: Output PLS (2019). bootstrapping.inner_weights.

DISCUSSION

The effect of corporate governance on entrepreneurial orientation is significantly positive, which means that the better corporate governance implemented in SMEs, the better the entrepreneurial orientation the better. These results support research (Wei and Ling, 2015) that corporate governance influences entrepreneurship, and findings (Deb and Wiklund, 2017) that corporate governance can explain variations in entrepreneurship.

The direct effect of corporate governance on SME business performance is not significant. This means that corporate governance cannot directly influence the performance of SME businesses. The results of this study do not support the findings (Hove-sibanda *et al.*, 2017); and (Mai, 2017). Research support was found (Dekker *et al.*, 2015) that corporate governance in SMEs with non-family involvement was lacking, and the weakness of the human resource control system, thus affecting performance outcomes.

The effect of corporate governance on a culture of innovation is significantly positive. Means goods corporate governance practices will enhance the culture of innovation in SMEs. The results of this study support the findings (Belloc, 2012); and (Asensio-lópez *et al.*, 2018). The influence of innovation culture on positive entrepreneurship orientation is significant. Means that the intensity of innovation culture will increase SME entrepreneurship. The results of this study support the findings (Kach *et al.*, 2015); and (Lee *et al.*, 2016) that the culture of innovation influences owner entrepreneurship and product development.

The influence of innovation culture on negative business performance. Means the results of hypothesis testing are rejected because the direction is negative. This finding does not support research (Nguyen *et al.*, 2018); and (Donkor *et al.*, 2018). Support findings (Prajogo, 2016) that innovation does not directly affect performance, but through entrepreneurship, due to strategic incompatibility with product innovation. The influence of entrepreneurship orientation on positive business performance is significant. It means that the high intensity of entrepreneurship orientation will improve SME business performance. This finding supports the results of the study (Fairoz, Hirobumi and Tanaka, 2010) and (Sarker and Palit, 2015).

Cooperative business models moderate the effect of entrepreneurship orientation on business performance in a significantly positive way. Means that cooperatives as a model can strengthen the influence of high-intensity entrepreneurship to improve SME business performance. These findings support the analysis (Novkovic, 2006); and (Braccini *et al.*, 2012) that the principles of democracy, caring, and encouraging differences in partners to provide mutually agreed solutions.

The business model cooperative moderates the influence of innovation culture on business performance and does not significantly influence the interaction. Means that cooperatives do not moderate the influence of innovation culture on SME business performance. This finding does not support (Novkovic, 2006); and (Braccini *et al.*, 2012). This explanation explains that the culture of innovation itself does not directly influence performance, but through entrepreneurship, so that cooperatives do not become moderation.

IMPLICATION TO RESEARCH AND PRACTICE

The implication of this study that the object of this research is small and medium enterprises, but more micro and small. In the object of research, the practice of corporate governance has not been intensive such as medium and large businesses. Therefore, the dimensions of the measurement of corporate governance need to be further developed by the practices carried out.

CONCLUSION

The results of testing and discussion of this study can be concluded that corporate governance variables are positively impacted by entrepreneurship orientation and innovation culture. The innovation culture variable has a positive effect on entrepreneurship orientation, and the entrepreneurship orientation variable has a positive effect on SME business performance. Corporate governance variables and the culture of innovation do not directly influence the performance of SME businesses. The business model cooperative variable strengthens the effect of entrepreneurship orientation on SME business performance but does not moderate the influence of innovation culture on SME business performance.

FUTURE RESEARCH

Future research for small and medium enterprise governance should emphasize more applicable governance indicators because there is not much governance research in small and medium-sized companies in Indonesia.

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