

THE 7P-KDKMP GOVERNANCE FRAMEWORK FOR RED AND WHITE VILLAGE COOPERATIVES

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ABSTRAK

Penelitian ini mengembangkan kerangka tata kelola Koperasi Desa/Kelurahan Merah Putih berdasarkan tujuh prinsip dalam Pasal 5 Undang-Undang Nomor 25 Tahun 1992, yang terdiri atas lima prinsip pelaksanaan pada ayat (1) dan dua prinsip pengembangan pada ayat (2). Penelitian menggunakan pendekatan kualitatif melalui integrative literature review terhadap penelitian terdahulu yang relevan serta analisis dokumen hukum, kelembagaan, dan kebijakan terkait Koperasi Desa/Kelurahan Merah Putih. Hasil sintesis mengelompokkan prinsip-prinsip tersebut ke dalam tiga fungsi tata kelola: member governance melalui keanggotaan sukarela-terbuka dan pengelolaan demokratis; member economic justice melalui pembagian sisa hasil usaha berdasarkan jasa usaha anggota dan balas jasa terbatas terhadap modal; serta institutional independence and development melalui kemandirian, pendidikan perkoperasian, dan kerja sama antarkoperasi. Kerangka tujuh prinsip Koperasi Desa/Kelurahan Merah Putih menempatkan ketujuh prinsip sebagai governance filter yang menentukan bagaimana dukungan eksternal diterjemahkan menjadi kapabilitas kelembagaan dan manfaat anggota. Dengan demikian, penguatan koperasi tidak cukup dinilai dari badan hukum, aset, pembiayaan, atau omzet, tetapi juga dari kualitas kontrol anggota, disiplin distribusi manfaat ekonomi, kemandirian keputusan, pembelajaran organisasi, dan kapasitas jaringan antarkoperasi.

ABSTRACT

This study develops a governance framework for Indonesia's Red and White Village/Subdistrict Cooperatives based on the seven principles contained in Article 5 of Law No. 25 of 1992: five implementation principles in Article 5(1) and two development principles in Article 5(2). The study employed a qualitative approach through an integrative literature review of relevant prior studies and an analysis of legal, institutional, and policy documents related to Red and White Village/Subdistrict Cooperatives. The synthesis groups the principles into three governance functions: member governance through voluntary and open membership and democratic management; member economic justice through surplus distribution in proportion to members' business participation and limited remuneration on capital; and institutional independence and development through independence, cooperative education, and cooperation among cooperatives. The proposed seven-principle Red and White Village/Subdistrict Cooperatives Governance Framework positions these principles as a governance filter shaping how external support is converted into institutional capabilities and member benefits. Cooperative strengthening should therefore be understood not only through legal establishment, assets, financing, or turnover, but also through member control, distributive discipline, decision-making independence, organizational learning, and inter-cooperative network capability.

Introduction

Cooperatives have an economic architecture that differs from investor-owned firms. Members may simultaneously act as owners, users, capital providers, and voting-right holders. Business efficiency therefore cannot be separated from the allocation of control rights, claims to economic benefits, and accountability mechanisms toward members. The literature describes this configuration as the dual nature of cooperatives, in which the organization must remain competitive as an enterprise while preserving its member-based character (Novkovic *et al.*, 2022; Puusa & Saastamoinen, 2021). The quality

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of this balance affects whether a cooperative can generate sufficient value to sustain member patronage without eroding the identity of collective ownership. Empirical evidence also indicates that cooperatives across different sectors can retain a distinguishable value core built around responsible business conduct, regionality and tradition, and economic soundness (Rabong & Radakovics, 2020).

For Red and White Village/Subdistrict Cooperatives (KDKMP), the primary normative basis is Article 5 of Indonesia's Law No. 25 of 1992 on Cooperatives. Article 5(1) formulates five principles of cooperative implementation: voluntary and open membership; democratic management; equitable distribution of surplus (Sisa Hasil Usaha, SHU) in proportion to each member's business participation; limited remuneration on capital; and independence. Article 5(2) adds two principles for cooperative development: cooperative education and cooperation among cooperatives (Undang-Undang Republik Indonesia Nomor 25 Tahun 1992 Tentang Perkoperasian, 1992). This statutory architecture is not identical to the International Cooperative Alliance framework, which groups member economic participation more broadly and includes concern for community as a separate principle (Launio & Sotelo, 2021; Novkovic *et al.*, 2022). Because KDKMP operates within the Indonesian legal system, this study uses the five Article 5(1) principles and the two Article 5(2) development principles as its seven analytical categories, while treating the ICA principles as an international comparative reference.

The need to translate these principles into operational governance has become more pressing following the accelerated establishment of the Red and White Village/Subdistrict Cooperatives, hereafter KDKMP. Presidential Instruction No. 9 Tahun 2025 and its implementing guidance accelerated new establishment, development of existing cooperatives, and institutional revitalization. The government formally launched the institutional establishment of 80,081 cooperatives in July 2025. By 14 August 2026, it reported that 10,000 KDKMP units had begun operating, of which 3,300 were operating optimally, and set a target of 30,000 units operating optimally by the end of 2026 (Humas Setkab RI, 2025, 2026). These figures indicate that the policy challenge is moving from legal formation toward operational quality: transactions, governance systems, business capacity, and sustainable member benefits.

The broader policy architecture includes business-unit development, revolving-fund financing, the construction of outlets and warehouses, digitalization, and human-resource support. Business development is supported by Peraturan Menteri Koperasi Republik Indonesia Nomor 2 Tahun 2025, revolving-fund financing by Peraturan Menteri Koperasi Republik Indonesia Nomor 9 Tahun 2025 Tentang Penyaluran Pinjaman Atau Pembiayaan Dana Bergulir Kepada Koperasi Desa/Kelurahan Merah Putih, 2025), physical outlets and warehousing by Instruksi Presiden Republik Indonesia Nomor 17 Tahun 2025, and human-resource operationalization by Instruksi Presiden Republik Indonesia Nomor 5 Tahun 2026. These interventions are economically understandable because newly established cooperatives face fixed start-up costs, limited capital, weak supplier networks, and uneven managerial capacity. Indonesian evidence suggests that external capital can improve cooperative productivity, although the effect varies according to organizational scale and capability (Sunarwibowo *et al.*, 2025). The strategic issue is therefore not whether external resources should be used, but whether they expand members' capacity to govern and use their cooperative rather than replacing members' decision-making functions.

This tension is also visible in cooperative experiences outside Indonesia. Social cooperatives operating within state-supported environments continue to face trade-offs among program accountability, organizational autonomy, and member democracy (Claassen *et al.*, 2026). In Indonesia, recent analysis of KDMP legal policy shows that rapid state-led implementation may create a structural misalignment between legal design and village-level institutional readiness, highlighting the importance of member-based governance, cooperative autonomy, and reduced excessive centralization for long-

term sustainability (Mauludin *et al.*, 2025). The more productive analytical question is thus not whether cooperatives should choose government support or independence, but how external support can be governed without displacing member sovereignty.

A research gap arises because early discussion of KDKMP has largely concentrated on accelerated formation, financing, facilities, distribution networks, and business-unit choices, whereas the wider cooperative literature shows that institutional quality is also shaped by democratic participation, patronage relations, capital structure, independence, organizational learning, and collective networks (Martínez-López *et al.*, 2025; Valentinov & Iliopoulos, 2021). Existing governance frameworks also tend to rely on generic cooperative-identity categories rather than translating the specific architecture of Article 5 of Indonesian cooperative law into operational mechanisms for organizations growing under large-scale state support. However, the existing literature has not sufficiently explained how cooperative principles function as governance mechanisms when cooperatives receive substantial external resources. This issue is particularly relevant for KDKMP, where government support creates opportunities for institutional growth but may also generate risks of dependency and reduced member control. Therefore, this study adopts the resource dependence theory perspective to explain how cooperative principles can act as governance mechanisms that preserve autonomy while utilizing external resources.

Accordingly, this study interprets the Article 5 principles as governance mechanisms for managing external resource dependence, identifies institutional risks arising during KDKMP operationalization, and develops the 7P-KDKMP Governance Framework. The contribution of this study lies not in proposing new cooperative principles, which are already established by Indonesian Cooperative Law, but in reinterpreting the statutory principles as a governance filter that mediates the relationship between external enabling resources, institutional capabilities, and member-centered outcomes. The study addresses three questions: how do the seven statutory principles operate as governance mechanisms; what institutional risks emerge when KDKMP develops under substantial external support; and how can these principles be integrated with organizational capabilities and outcomes within the 7P-KDKMP framework?

Literature Review

Resource Dependence Theory as the Grand Theoretical Foundation

Resource Dependence Theory (RDT) proposed by Pfeffer & Salancik (1978) serves as the grand theoretical foundation of this study. RDT explains that organizational behavior is shaped by the external environment and by the organization's dependence on critical resources. Organizations require external resources for survival, but excessive dependence may influence autonomy and decision-making capacity. Therefore, organizations need governance mechanisms to manage external dependencies while maintaining internal control. In the context of KDKMP, this perspective explains the need to balance government support, institutional resources, and cooperative independence through the application of statutory cooperative principles.

The Statutory Cooperative Principles as a Governance Architecture

The economic meaning of the Article 5 architecture is more specific than a generic values statement. Voluntary and open membership shapes the ownership base, while democratic management determines where decision rights are located. The rule that SHU be distributed fairly in proportion to members' business participation links residual benefits to patronage rather than to capital ownership. Limited remuneration on capital constrains the conversion of a cooperative into an investor-centered organization. Independence protects member control over strategic choices; cooperative education

reduces information asymmetry and develops governance capability; and cooperation among cooperatives creates opportunities for scale without eliminating organizational sovereignty (Undang-Undang Republik Indonesia Nomor 25 Tahun 1992 Tentang Perkoperasian, 1992). Recent cooperative-governance literature conceptualizes governance as an integrated system of structures and processes involving members, boards, management, decision-making rules, monitoring, policy and principle compliance, leadership, and social or human capital, rather than as a single governance mechanism (Becerra Arévalo & Giraldo Pérez, 2025; Jamaluddin *et al.*, 2023; Sacchetti & Catturani, 2021). Similar management perspectives emphasize that organizational sustainability requires systematic performance management mechanisms that align internal processes, stakeholder expectations, and organizational learning (Biswan & Alim, 2021). This perspective supports the interpretation of cooperative principles as governance mechanisms that translate normative values into organizational practices.

Member sovereignty cannot be established merely by the formal one-member-one-vote principle, particularly because contemporary organizational and legal pressures can weaken democratic governance and effective member control (Meira & Ramos, 2023). Meaningful participation requires social networks, organizational openness, access to information, and real opportunities to influence decisions. Evidence from Swedish agricultural cooperatives shows a strong relationship between members' social networks and their willingness to participate in governance (Morfi *et al.*, 2021). At different stages of the cooperative life cycle, organizational openness to member input also influences relationship quality and the organization's capacity to preserve its identity (Byrne *et al.*, 2023). For managers and boards, these findings imply that democratic quality and cooperative identity must be reinforced through communication, shared understanding of cooperative values, and effective decision design rather than through formal procedures alone (Saastamoinen & Puusa, 2024).

The third statutory principle connects member business participation directly with distributive justice. In a cooperative, members may simultaneously act as users, owners, and capital providers, but the legal logic of SHU distribution gives priority to the magnitude of members' business services rather than the size of their capital contribution. This makes reliable transaction records, transparent allocation formulas, and member understanding of SHU distribution central governance requirements. Cooperative membership and patronage are influenced by expected economic benefits, service quality, knowledge, and confidence that collective action can create value that is difficult to obtain individually (Ghauri *et al.*, 2021; Munch *et al.*, 2021). For KDKMP, the principle therefore links daily member transactions with the legitimacy of year-end benefit distribution.

Capital Discipline, Independence, and Cooperative Capability

The fourth principle, limited remuneration on capital, establishes a capital-discipline rule that distinguishes cooperatives from investor-owned firms. Capital is necessary for business continuity, but returns to capital should remain limited so that economic benefits do not shift toward those who contribute the most funds rather than those who participate in the cooperative's business. This principle is particularly relevant for KDKMP because start-up financing and external funding may expand rapidly. Evidence from Indonesian agricultural cooperatives indicates that external capital can improve performance, but its institutional effect depends on scale and organizational capability (Sunarwibowo *et al.*, 2025). Governance should therefore make the cost and remuneration of capital transparent, subject capital-return policies to member approval, and ensure that capital remuneration does not displace patronage-based benefits.

The fifth and sixth principles connect independence with cooperative capability. Independence does not require a cooperative to reject government programs, lenders, suppliers, technology, or commercial

partnerships. The central issue is whether cooperative organs retain effective decision rights once external resources enter the organization. Cooperative education complements this safeguard because democratic management has little substance when members, boards, or managers cannot interpret financial reports, financing risks, contracts, or strategic alternatives. Business professionalism and cooperative identity are therefore complementary rather than conflicting requirements. Entrepreneurial orientation, managerial quality, risk control, and organizational attributes are associated with stronger cooperative performance (Fernando *et al.*, 2021; Löffel & Gmür, 2024; Shirima, 2022). Management capability and continuous improvement practices are also important determinants of organizational sustainability, as demonstrated by studies emphasizing quality management systems and structured improvement processes as drivers of performance enhancement (Sylvia *et al.*, 2023).

The seventh principle, cooperation among cooperatives, provides a statutory route to collective scale. Inter-cooperative arrangements can support joint procurement, logistics, standardization, marketing, data systems, and access to finance without requiring each KDKMP unit to internalize every function. Social capital can reduce coordination costs and strengthen collective action, but it does not remove the need for contracts, performance standards, financial transparency, and accountability (Tuna & Karantininis, 2021; Valentinov & Iliopoulos, 2021). Local economic benefits such as improved market access, lower distribution costs, employment, household welfare, and rural poverty alleviation are treated in this study as potential outcomes of effective cooperative governance rather than as a separate statutory principle (Gava *et al.*, 2021).

Previous studies indicate that cooperative sustainability is shaped by three interconnected governance dimensions: member governance, economic justice, and institutional independence. Member governance determines how members exercise ownership rights and participate in collective decision-making, while economic justice regulates the relationship between member participation and the distribution of cooperative benefits. Institutional independence reflects the capacity of cooperatives to maintain autonomy while developing organizational capabilities and managing external relationships. However, these dimensions are frequently examined separately, creating a conceptual gap regarding how cooperative principles function as an integrated governance system. This gap becomes particularly relevant for KDKMP, where newly established cooperatives may receive substantial external support while simultaneously needing to preserve member control and cooperative identity. Therefore, this study synthesizes the seven statutory cooperative principles into a governance framework that explains how cooperative values operate as institutional mechanisms for managing resources, capabilities, and member-centered outcomes.

The seven principles can be organized into three governance functions based on their distinct institutional roles. P1 and P2 form member governance because voluntary and open membership establishes the member base, while democratic management determines how members exercise organizational authority. P3 and P4 form member economic justice because SHU distribution based on members' business participation and limited remuneration on capital regulate the allocation of economic benefits within a member-owned enterprise. P5 to P7 form institutional independence and development because independence protects organizational decision-making, cooperative education develops the capabilities required for effective governance, and cooperation among cooperatives expands collective capacity without eliminating organizational sovereignty.

The 7P-KDKMP Conceptual Framework

Based on the literature synthesis and the Article 5 statutory architecture, the seven analytical principles are organized into three governance functions. P1 and P2 form member governance through open

membership and democratic management. P3 and P4 form member economic justice by linking SHU distribution to members' business participation while limiting remuneration on capital. P5 to P7 form institutional independence and development through independent decision-making, cooperative education, and cooperation among cooperatives. These functions operate as a governance filter that shapes whether regulation, financing, infrastructure, human resources, technology, and market access are converted into institutional capabilities. Those capabilities, in turn, are expected to influence institutional sustainability, potential business outcomes, member economic benefits, and local economic strengthening.

The framework positions the seven statutory principles as a 7P governance filter between external enabling resources and institutional capabilities. Independence functions as a safeguard because external support can lower start-up costs, expand market access, and accelerate business capacity, while excessive dependence can shift accountability away from members. The two economic-justice principles add a second safeguard: business surplus and capital remuneration must preserve the member-based distribution logic of the cooperative. The framework is recursive because outcomes experienced by members reshape trust, patronage, capital formation, and the quality of democratic control. Institutional strengthening is therefore treated as a cumulative process rather than a one-way linear relationship.

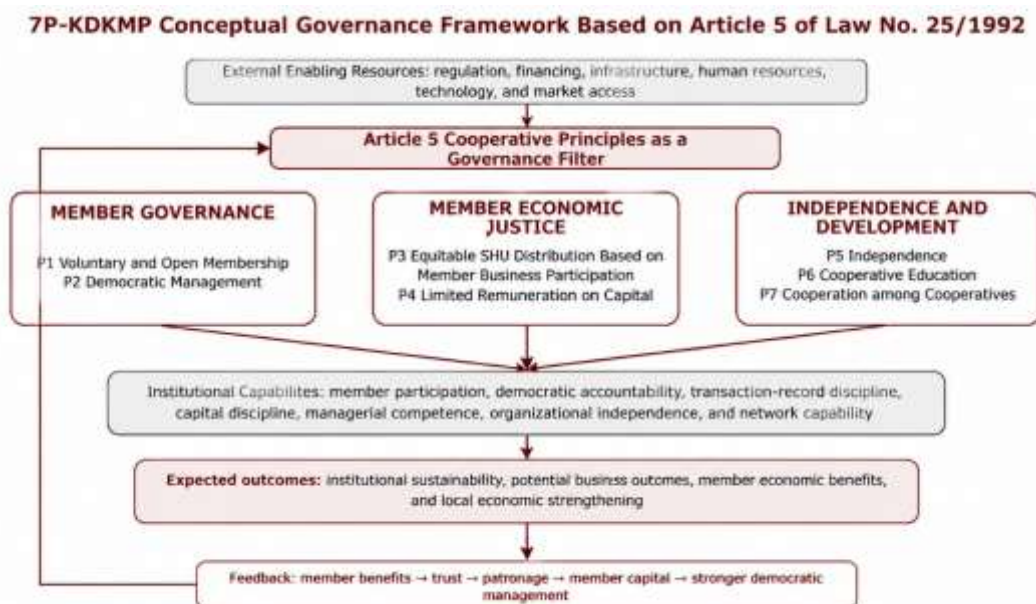


Figure 1. 7P-KDKMP Conceptual Governance Framework Based on Article 5 of Law No. 25/1992

Source: Processed by Researchers (2026)

Method

This study adopts a qualitative approach using an integrative literature review combined with policy-document analysis. The design was selected to build a conceptually grounded synthesis of how the seven Article 5 principles can operate as governance mechanisms for KDKMP, rather than to estimate causal effects or the compliance level of a particular cooperative. The unit of analysis consists of empirical and conceptual findings explaining relationships among member rights, democratic management, patronage and surplus allocation, capital discipline, independence, cooperative education, inter-cooperative cooperation, organizational capabilities, external resources, and institutional outcomes.

Literature identification was conducted in August 2026 through Google Scholar and selected journal publisher databases. The search used combinations of keywords related to cooperative

governance, cooperative principles, member participation, institutional capability, cooperative independence, and cooperative performance. Scopus and SINTA classifications were subsequently used to verify the indexing status of the selected articles.

The inclusion criteria were: peer-reviewed journal articles published from 2020 to August 2026; direct relevance to at least one cooperative principle, governance mechanism, organizational capability, or institutional outcome; verifiable bibliographic metadata; and publication in a Scopus-indexed international journal or an Indonesian journal classified as SINTA 1 at the August 2026 recheck. Articles were excluded when they were duplicates, focused on non-cooperative organizations without a direct contribution to the mechanisms under review, constituted non-peer-reviewed opinion pieces, or addressed technical issues without governance implications. The 2020–2026 publication-year restriction applies to the peer-reviewed journal corpus, while primary legal and policy documents are retained according to their governing or programmatic relevance. The literature selection followed a relevance-based screening approach. Articles were identified through keyword searches using Publish or Perish as a literature retrieval tool and relevant journal databases. The retrieved publications were then evaluated based on their relevance to cooperative principles, cooperative governance, institutional capability, and member outcomes. After relevance assessment, 41 peer-reviewed journal articles were selected as the final literature corpus. Because the study adopts an integrative literature review rather than an exhaustive systematic review or meta-analysis, the selection process emphasizes conceptual relevance and conceptual relevance while maintaining a transparent identification, screening, and eligibility procedure.

In addition to the journal corpus, nine Indonesian legal, institutional, and policy sources were used to interpret the KDKMP context: Undang-Undang Republik Indonesia Nomor 25 Tahun 1992; Instruksi Presiden Republik Indonesia Nomor 9 Tahun 2025; Petunjuk Pelaksanaan Menteri Koperasi Republik Indonesia Nomor 1 Tahun 2025; Peraturan Menteri Koperasi Republik Indonesia Nomor 2 Tahun 2025; Peraturan Menteri Koperasi Republik Indonesia Nomor 9 Tahun 2025; Instruksi Presiden Republik Indonesia Nomor 17 Tahun 2025; Instruksi Presiden Republik Indonesia Nomor 5 Tahun 2026; and two official presidential releases on program development. International cooperative-identity literature was used as a comparative reference, not as the legal basis for defining the seven principles used in the framework. Program sources were used to identify policy stages and operationalization directions, not as evidence that KDKMP units had already achieved institutional or business success.

The study applied a structured qualitative synthesis approach to analyze the selected literature. The analysis was guided by Resource Dependence Theory, cooperative governance literature, and the seven statutory cooperative principles as conceptual lenses to identify recurring themes, governance mechanisms, and relationships among cooperative principles, institutional capabilities, and member-centered outcomes. The selected articles were reviewed based on their relevance to cooperative governance, cooperative principles, institutional capability, and member outcomes. The synthesis process involved comparing findings across studies, identifying common patterns and conceptual relationships, and integrating these insights into the 7P-KDKMP Governance Framework. The analytical categories were informed by Resource Dependence Theory, cooperative governance literature, and the seven statutory cooperative principles. The seven Article 5 principles served as the primary analytical dimensions. The selected studies were synthesized across four cross-principle dimensions: member entry and democratic management; member business participation, SHU distribution, and capital discipline; independence and organizational learning; and inter-cooperative relations and institutional outcomes. For descriptive mapping, each article was assigned to one dominant thematic focus based on its primary research objective, theoretical emphasis, and main outcome examined. Although an article could

contribute to multiple analytical dimensions, only one dominant theme was assigned for descriptive mapping. During the synthesis process, a single article could contribute to multiple analytical dimensions when relevant to more than one category. Consistencies, tensions, and institutional risks were compared through triangulation among Indonesian legal and policy documents, international cooperative-identity literature as a comparative reference, cross-country empirical findings, and Indonesian studies. The resulting synthesis was used to construct the 7P-KDKMP framework linking statutory principles, institutional risks, governance instruments, capabilities, outcomes, and the member feedback loop. The resulting indicators are therefore analytical propositions for subsequent empirical validation, not validated compliance thresholds.

Results and Discussion

Results

The final corpus consisted of 41 journal articles. To make the basis of the synthesis transparent, each article was mapped to one primary focus according to its dominant contribution. The classification in Table 1 is descriptive and mutually exclusive for mapping purposes. During the synthesis process, thematic categories were allowed to overlap because a single study could contribute to multiple governance mechanisms. For example, studies primarily examining democratic decision-making, board accountability, member control, and cooperative identity were classified under governance and identity. The thematic classification was used for descriptive mapping purposes rather than quantitative weighting of the literature. Studies focusing on member participation, patronage, service utilization, and member benefits were classified under membership and member value. Similarly, studies emphasizing financial performance, capital structure, or economic outcomes were classified under economic and financial sustainability.

Table 1. Thematic Characteristics of the 41 Journal Articles Reviewed

Primary Focus	n	Share	Analytical Coverage
Governance, identity, and democratic control	13	31.7%	Cooperative identity, boards, accountability, autonomy, values, and democratic governance.
Membership, participation, and member value	8	19.5%	Joining decisions, patronage, engagement, member networks, and membership value.
Capability, finance, entrepreneurship, and organizational outcomes	8	19.5%	Performance, external capital, entrepreneurial orientation, organizational capacity, and supply chains.
Social capital, networks, and local economic outcomes	6	14.6%	Social capital, collective action, inter-cooperative networks, and local economic linkages.
Welfare, productivity, and technology outcomes	6	14.6%	Income, wellbeing, productivity, technology adoption, and household benefits.

Sumber: Diolah Peneliti (2026)

The thematic composition shows that the strongest body of literature concerns governance and cooperative identity, whereas direct evidence on welfare and local economic outcomes is comparatively more limited. This imbalance is one reason the 7P-KDKMP framework does not stop at internal control. It links the statutory governance architecture with institutional capabilities and economic outcomes so that cooperative strength is assessed through both the quality of member-based governance and the organization's ability to create sustainable economic value.

The synthesis indicates that cooperative strengthening should be understood as a process of institutionalization rather than merely organizational formation. Legal status, capital, outlets, warehouses, digital systems, and human resources provide an enabling environment, but formal membership alone does not guarantee genuine member participation. Evidence shows that cooperative members may remain registered without actively using cooperative services, while service quality, cooperative knowledge, accessibility, and surplus-distribution arrangements influence the intensity of member utilization (Liu *et al.*, 2024). Cooperative advantage therefore emerges when membership is connected to active transactions, democratic accountability, transparent SHU allocation, capital discipline, organizational independence, education, and economically meaningful inter-cooperative networks. Table 2 summarizes the synthesis across the three governance functions and their implications for KDKMP.

Table 2. Literature Synthesis and Governance Implications for KDKMP

Dimension	Code	Synthesis Finding	Implication for KDKMP
Member governance	P1-P2	Open membership and democratic management establish the member ownership and control base.	Track active membership, meeting quality, voting, information access, and board accountability.
Member economic justice	P3-P4	SHU follows member business participation while remuneration on capital remains limited.	Use auditable transaction records, transparent SHU formulas, and member-approved capital-remuneration rules.
Independence and development	P5-P7	Independence, education, and inter-cooperative cooperation build durable capability and scale.	Monitor external dependence, decision rights, education, and inter-cooperative transactions.
Institutional outcomes	P1-P7	potential Business outcomes are interpreted together with statutory governance and member economic benefits.	Separate program outputs, business health, statutory governance, member benefits, and local outcomes.

Sumber: Diolah Peneliti (2026)

The first principle, voluntary and open membership, requires membership to reflect an informed and non-coercive decision rather than simple administrative registration. Membership and patronage decisions are influenced not only by expected economic benefits and service quality but also by transaction characteristics and the degree of members' business specialization, which can affect whether producers perceive cooperative affiliation as an appropriate organizational arrangement (Jitmun *et al.*, 2020; Miroro *et al.*, 2023; Trejo-Pech *et al.*, 2023). For KDKMP, membership quality should therefore be assessed through active use of services, participation in orientation, retention, and members' understanding of rights and obligations. A large membership roll is institutionally weak when most registered members have no transaction relationship with the cooperative.

The second principle, democratic management, determines where organizational power resides. Good governance requires more than the formal existence of an Annual Members Meeting. Members need timely agendas and reports, sufficient information to understand proposed decisions, usable voting rights, and mechanisms for questioning boards and managers. Board composition and interaction patterns matter because the board translates member mandates into strategic oversight (Iliopoulos *et al.*, 2022). Evidence from credit union cooperatives also shows that members evaluate governance through accountability, transparency, responsibility, fairness, and participation rather than formal compliance alone (Kumkit *et al.*, 2024).

The third principle, equitable SHU distribution in proportion to members' business participation, gives patronage a direct distributive function. The principle requires the cooperative to distinguish between membership status and actual business services contributed by each member. For KDKMP, this creates a practical need for auditable transaction records, transparent SHU formulas, and member-approved allocation rules. The value of membership should be visible through prices, services, market access, patronage-based surplus benefits, and improved access to economic resources such as bank credit, which may be facilitated by the social capital embedded in cooperative membership (Munch *et al.*, 2021; L. Yu *et al.*, 2023). Evidence on cooperative welfare and productivity further suggests that cooperative membership can generate economic value through improved services, market relationships, income, and farm productivity (Akinola *et al.*, 2023; Ankrah Twumasi *et al.*, 2021; Liu *et al.*, 2022; Nurudeen Afolabi & Olumuyiwa Ganiyu, 2021; Zou & Wang, 2022). Beyond income effects, cooperative membership has also been associated with higher subjective wellbeing, with income and social capital acting as important mediating mechanisms (Wu *et al.*, 2022).

The fourth principle, limited remuneration on capital, protects the member-centered economic character of the cooperative. Capital has a legitimate financing function, but a high or open-ended return to capital can redirect the organization toward investor logic. This risk is particularly relevant when KDKMP depends on external financing during early operationalization. Governance should therefore disclose the cost and remuneration of each capital source, establish member-approved ceilings or formulas where relevant, and monitor whether capital remuneration is crowding out patronage-based benefits. External capital may improve productivity (Sunarwibowo *et al.*, 2025), but its governance quality depends on whether financing strengthens member services without changing the cooperative's benefit-distribution logic.

The fifth principle, independence, is the key safeguard for cooperatives developing under extensive policy support. Dependence on program income, lenders, suppliers, or assigned distribution functions can create new governance risks even when formal member meetings continue to operate. Institutional safeguards should include member approval for material transactions, contract disclosure, concentration-risk monitoring, and periodic review of whether external arrangements alter strategic decision rights. The relevant question is not whether the cooperative receives outside support, but whether cooperative organs remain capable of making accountable choices on behalf of members.

The sixth principle, cooperative education, functions as governance and capability infrastructure. Democracy loses substance when members cannot read reports, understand SHU calculations, assess financing risks, or evaluate strategic alternatives. Education should also cover boards and managers because business professionalism requires financial literacy, operational discipline, market awareness, and the ability to explain decisions in terms members can understand. Organizational attributes and managerial quality are associated with cooperative performance, while recent evidence further shows that combinations of managers' competencies in knowledge and technology, personal capabilities, career orientation, personality traits, and intrinsic drive can support high cooperative performance (Fernando *et al.*, 2021; Shirima, 2022; X. Yu *et al.*, 2023). For KDKMP, cooperative education should therefore be institutionalized as a recurring system rather than treated as a one-off socialization event.

The seventh principle, cooperation among cooperatives, provides a scale strategy that remains consistent with organizational independence. Joint procurement, warehousing, distribution, payments, data systems, marketing, and access to finance can improve bargaining power without forcing each KDKMP unit to internalize every function. Supply-chain evidence indicates that coordination and performance measurement are important for sustaining quality and productivity (Nuraina *et al.*, 2021).

Inter-cooperative arrangements therefore require clear contracts, service standards, data-sharing rules, cost-sharing mechanisms, and performance accountability. When these conditions are met, P7 can contribute to lower transaction costs, wider markets, and stronger local economic linkages.

Table 3. Operationalization of the Seven Cooperative Principles for KDKMP Institutional Strengthening

Principle	Institutional Risk	Governance Instrument	Core Indicator
1. Voluntary and open membership	Passive or administrative membership	Transparent entry/exit; member orientation; clear rights and obligations	Active-member ratio; retention; service use
2. Democratic management	Board, manager, or external-actor dominance; formalistic meetings	Pre-meeting reports; voting rules; conflict-of-interest rules; accessible minutes	Attendance and voting; member-ratified strategic decisions
3. Equitable SHU distribution based on member business participation	SHU allocated without reliable patronage records	Auditable transaction records; transparent SHU formula; member approval	Transaction-record completeness; distributable SHU linked to business participation
4. Limited remuneration on capital	Excessive return to capital; financing costs crowd out member benefits	Capital-cost disclosure; member-approved remuneration ceiling or formula	Capital remuneration rate; share of surplus absorbed by capital remuneration
5. Independence	External dependence shifts strategic decision rights	Member approval of material transactions; contract disclosure; concentration review	External-dependence ratio; material decisions made by cooperative organs
6. Cooperative education	Low literacy on reports, SHU, risk, and cooperative identity	Recurring education for members, boards, and managers; accessible reporting	Education participation; member literacy; information timeliness
7. Cooperation among cooperatives	Ceremonial networks; high coordination costs	Network contracts; joint procurement/logistics; service standards	Inter-cooperative transaction value; cost savings; network utilization

Sumber: Diolah Peneliti (2026)

Table 3 translates the Article 5 principles into governance risks, instruments, and core indicators for KDKMP. The table is not designed as a universal compliance score, and the listed indicators should not be interpreted as empirically validated cut-off values. Its purpose is to convert statutory principles into observable governance questions that can subsequently be tested through member surveys, governance audits, transaction data, financial records, longitudinal analysis, and comparative case studies. The indicators presented in Table 3 are proposed conceptual indicators intended to guide future empirical assessment of KDKMP governance practices. They are derived from the synthesis of cooperative principles, governance literature, and Resource Dependence Theory. These indicators do not represent validated measurement scales, standardized assessment instruments, or compliance thresholds. Future empirical studies are required to test their reliability, validity, and applicability across different cooperative contexts. As an integrative literature review, this study presents conceptual propositions derived from existing literature and policy documents; therefore, these propositions require further validation through empirical field studies involving KDKMP members, managers, and stakeholders.

Discussion

The central finding is a three-sided governance challenge involving state support, member economic justice, and institutional independence. KDKMP requires public support to overcome entry barriers, but the larger the share of resources originating outside the cooperative, the greater the need to preserve democratic management and independent decision-making. At the same time, rapid capital formation must not displace the statutory rule that member business participation, rather than capital ownership, anchors the distribution of cooperative surplus. A cooperative may therefore comply formally with member-meeting requirements while still drifting away from its legal-economic identity through weak patronage records, excessive capital rewards, or dependence on external program priorities.

This argument does not imply that external support should be uniformly reduced. Public intervention can create additionality when it covers start-up costs that members cannot yet finance, accelerates network formation, and lowers the cost of access to technology and markets. Its positive effect is conditional on governance. External resources strengthen the cooperative when they expand member capabilities, improve services, generate future member-based revenue, and remain subject to cooperative decision rights. They weaken it when they create permanent dependence, obscure commercial viability, or shift effective control toward funders and program administrators. P5, independence, therefore functions as a safeguard, while P4, limited remuneration on capital, protects the cooperative from allowing financing needs to redefine the distribution of economic benefits.

The framework also broadens the conceptual assessment of cooperative strengthening beyond legal entities, outlets, financing, turnover, and assets. Monitoring should distinguish four layers: program outputs, business health, statutory cooperative governance, and member or local economic outcomes. Evidence from Indonesian dairy cooperatives further shows that external shocks can weaken production and financial performance, reinforcing the need to monitor organizational resilience alongside routine business indicators (Firman *et al.*, 2024). This multidimensional approach prevents operational expansion from being interpreted as institutional success when member-based governance or economic relationships remain weak.

The first managerial implication is to apply a member-needs test before establishing any business unit. Boards should identify the member problem being addressed, projected transactions, margins, cash-flow risks, and expected member benefits, thereby reducing the risk of developing businesses merely because facilities or programs are available.

The second implication is to maintain a clear separation between governance and management. Professional managers should control operations, costs, markets, and innovation, while strategic direction, material risks, major transactions, and surplus allocation remain accountable to member-based governance. Democracy and professional management are therefore complementary rather than substitutive functions.

The third implication is to manage member engagement and commitment as strategic assets. Evidence indicates that contractual and relational governance can strengthen members' continuance and affective commitment, while trust-based relational mechanisms can also restrain internal opportunistic behavior by strengthening perceived member benefits (Benos *et al.*, 2025; Byrne *et al.*, 2023; Zeng & Wan, 2024). For KDKMP, engagement can be strengthened through transaction-based communication, accessible performance dashboards, pre-meeting information, member education, and service design based on actual patronage patterns. This approach also makes democratic participation more economically grounded because members are discussing an organization they actively use.

The fourth implication is to treat P7, cooperation among cooperatives, as a scale strategy rather than as another administrative layer. Joint procurement, warehousing, distribution, payments, data, and marketing can improve bargaining power when inter-cooperative transactions are governed by contracts, service standards, cost-sharing rules, and performance metrics. This statutory development principle offers KDKMP a pathway to scale without requiring every village or subdistrict cooperative to internalize all functions or surrender organizational independence.

Theoretically, the framework extends cooperative-governance analysis in two ways. First, it positions the Article 5 principles as mechanisms operating between external enabling resources and organizational outcomes, thereby specifying why equivalent levels of financing, infrastructure, or digital support may produce different institutional trajectories. Second, it makes member economic justice an explicit governance layer that is often blurred when the seven ICA principles are transferred directly into the Indonesian context. P3 and P4 distinguish patronage-based SHU distribution from remuneration on capital, while P5 to P7 connect independence, cooperative education, and inter-cooperative development. The framework therefore treats state support, capital, digitalization, and market access as enabling conditions whose institutional effects depend on how they are filtered through member control, distributive discipline, and organizational capability.

The relationships in the framework are recursive. When members receive tangible patronage benefits, understand how SHU is allocated, and trust the quality of information, engagement and transactions are more likely to strengthen. Higher patronage expands the transaction base and can support member capital formation, while stronger participation improves monitoring and democratic management. These processes can gradually reduce dependence on external resources and strengthen independence. Conversely, weak member value, opaque SHU allocation, or a capital structure perceived as favoring funders can reduce patronage and trust. Institutional strengthening is therefore cumulative: governance quality and economic performance can reinforce, or weaken, one another over time.

Conclusion

Regarding the first research question, this study demonstrates that the seven statutory cooperative principles function as governance mechanisms that regulate member authority, democratic decision-making, economic benefit distribution, organizational independence, capability development, and inter-cooperative relationships. Regarding the second research question, the study identifies that external support for KDKMP, including financial resources, institutional assistance, and market facilitation, may create dependency risks when it weakens member control, autonomy, or the cooperative economic logic. Regarding the third research question, the study integrates these principles into the 7P-KDKMP Governance Framework, which positions cooperative principles as a governance filter connecting external resources, institutional capabilities, and member-centered outcomes.

This study concludes that the principles contained in Article 5 of Law No. 25 of 1992 should be positioned as governance infrastructure for Indonesia's Red and White Village/Subdistrict Cooperatives rather than as normative additions after legal establishment. The 7P-KDKMP framework organizes the five implementation principles in Article 5(1) and the two development principles in Article 5(2) into member governance, member economic justice, and institutional independence and development. Regulation, financing, infrastructure, human resources, technology, and market access become institutionally productive only when membership remains voluntary and open, management is democratically accountable, SHU distribution follows member business participation, remuneration on capital remains limited, strategic decisions remain independent, cooperative education builds capability, and inter-cooperative cooperation creates measurable scale benefits. The theoretical contribution is the

explicit integration of Indonesian statutory principles with cooperative-governance and institutional-capability literature, particularly through the governance-filter mechanism and the distinct member-economic-justice layer. Managerially, the framework directs boards, managers, and program evaluators to monitor membership quality, democratic decision processes, transaction records, SHU allocation, capital-remuneration discipline, external dependence, cooperative education, and inter-cooperative transactions alongside conventional business measures. The study is limited by its integrative-review and policy-analysis design and does not measure actual implementation across KDKMP units; accordingly, the proposed relationships and indicators should be empirically validated through member surveys, governance audits, transaction and financial data, longitudinal analysis, and comparative case studies.

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