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COOPERATIVE AND FINANCIAL LITERACY ON COOPERATIVE PERFORMANCE: THE MEDIATING ROLE OF BUSINESS CAPABILITY

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ABSTRACT

The aim of this study is to examine how cooperative literacy, financial literacy, and business capability influence cooperative performance in Indonesia, with a focus on West Java, where performance remains relatively low due to suboptimal managerial competence. A questionnaire was used to gather data, and it yielded analyzable responses from 581 respondents consisting of chairperson, secretary and treasurer cooperatives in West Java. The entire data processing by SEMPLS with WarpPLS software. This study finds that cooperative literacy, financial literacy and business capability have an impact on cooperative performance. Cooperative literacy has positive impact to business capability, but financial literacy is not. Then business capability can mediation to cooperative literacy but not for financial literacy. Cooperative management must improve their knowledge of cooperatives, financial management and business knowledge through training programs for cooperatives to flourish more effectively.

Keywords: cooperative literacy; financial literacy; business capability; cooperative performance.

INTRODUCTION

Academics and practitioners in the cooperative sector in Indonesia have long been interested in research on cooperative performance, which has been measured using a variety of performance proxies, including financial performance (Indra et al., 2021; Siregar, 2020; Utami & Darmawan, 2021) and member participation (Triwani et al., 2020). This earlier research demonstrates the existence of concerns in cooperative management that result in two problems, namely financial management and cooperative understanding. Cooperatives managers must be capable of running the cooperative in accordance with the cooperative primary principles. According to (Triwani et al., 2020) research, cooperative literacy improve cooperative performance. Meanwhile, research by (Sari & Purwanto, 2022) has found no substantial effect. Financial literacy is important to understand the basic economic concept needed to make saving and investment decision. It is more important to executive members of cooperative because they have to make complex financial decision besides day-to-day management. The research of Dito Rinaldo et al. (2025) found that the financial literacy level of Indonesian people is still very poor. And so the financial literacy has a positive impact on cooperative performance (Utami & Darmawan, 2021). In contrast to the research (Anggraini et al., 2023; Hamzah & Yusoff, 2025; Adang & Wulandari, 2026) which shows no impact.

Business capabilities, including innovation, dynamic collaboration and management competence have a significant impact on cooperative performance measures through growth of turnover, assets and net income. Strong capabilities enable cooperatives to adapt for services, capital and competition. That is why, in this study, we use business capabilities as a mediating variable.

To raise the volume of cooperative business growth, which in this case will become a separate competitiveness in progressing cooperatives, the demands of members are crucial. The Ministry of Cooperatives and SMEs publication data 2023 the number of active cooperatives has decreased over decade, from 229,448 units in 2014 to 130,119 units at the end of 2023, a reduction of 79,328 units and inactive cooperatives have been dissolved. Cooperatives management fails due to a number of issues, including cooperatives literacy, financial literacy and business capabilities. Managing cooperative necessitates extensive knowledge about cooperatives and the number of cooperatives is predicted to grow in tandem with the establishment of Merah Putih Cooperatives in all villages in Indonesia, which totals 83,000 villages, implying that the number of cooperatives will increase in response to the president's directive. Increasing the number of cooperatives without improving the capacity of their managers is extremely hazardous. This study examines the role of managers in developing cooperative literacy and financial literacy in cooperative management. The demand for cooperative resources with commercial capacity and capability would significantly fuel the establishment of cooperatives as the backbone of the national economy, as envisioned by Bung Hatta, Indonesia's cooperative father.

Table 1. Number of Cooperatives in Indonesia and West Java from 2021-2024

Year	Indonesia	West Java
2021	127,846	27,404
2022	130,354	27,417
2023	130,119	27,998
2024	131,617	29,096

Source: Data processed, 2025

West Java, being one of the provinces with the most active cooperatives in Indonesia, outperforms other provinces. This is why the research concentrates on West Java. The widespread expansion of cooperatives is expected to result in several failures in cooperative development. If all the demands of the members have been addressed in the cooperative, then strong competition will prevent consumers from looking for other options to do business outside the cooperative (Aristana et al., 2020). This is because human resources managing cooperatives lack the necessary expertise and experience. To improve comprehension of cooperative management in accordance with the values, guidelines, and 1945 Constitution, cooperative human resources are required. In order to provide better services to members, administrators, one of the cooperatives' key human resources responsible for driving success, must be able to increase members' ownership and consumer participation levels. This will enable cooperatives to become self-sufficient in terms of internal capital (Anasrulloh et al., 2021).

The primary objective of this study is to provide evidence that the poor performance of cooperatives can be attributed to the inadequate understanding of cooperative principles among non-professional cooperative management. Currently, cooperative has a poor image in the eyes of community, especially younger generation. Many cases of fraud are carry out by cooperatives such as fraudulent investment that is under the guise of cooperatives (Haryono

et al., 2021). According to BPS statistics from 2022, West Java has the second-highest number of cooperatives in Indonesia, following East Java. A large number of cooperatives in West Java have been closed due to mismanagement by cooperative administrators, which is why the research is focused on cooperatives in West Java. Cooperatives are formed with a sense of community, but this is frequently accompanied with a lack of understanding of cooperatives. Cooperatives, being commercial entities, share management characteristics with corporations; thus, the business capabilities of cooperative managers become critical to the cooperative's performance success. As a result, in this study, business capability serves as a mediator. This study will look at the relation between cooperative literacy and financial literacy and how it affects the performance of cooperatives, as well as the role that business competencies play as a mediating factor. This study aims to highlight these gaps in knowledge and emphasize the need for targeted educational and training programs that can enhance the capabilities of cooperative managers. By addressing these shortcomings, cooperatives can improve their overall performance, ensuring long-term sustainability and greater economic contributions to their communities (Hamzah & Yusoff, 2025).

This study based on resources based view and institutional theory. While RBV explains how cooperative and financial literacy can improve business capability and cooperative performance. Institutional theory explains why understanding cooperative principles and norms is critical for achieving legitimacy and longterm performance. Institutional theory identifies the main construct institutional as institutional entrepreneurship (Risi et al., 2023). This issue stems from a low level of cooperative literacy, which results in ineffective decision-making and operational inefficiencies. Many cooperative managers still struggle to grasp the fundamental concepts of direct business management, commonly referred to as business aptitude. Additionally, their lack of financial literacy further exacerbates the problem, as they are unable to implement sound financial strategies necessary for sustaining and growing their cooperatives. Without a solid understanding of these key area's cooperative literacy, business capability, and financial literacy. Cooperative management teams face significant challenges in maintaining operational efficiency and financial stability.

The urgency of this research is to offer the answers required to boost cooperative management's capability and competence to produce cooperative individuals who comprehend the significance of cooperatives in daily life. Business capabilities is the capacity to convey a company's identity to clients and workers. the capacity to outperform rivals by utilizing a collection of corporate characteristics that are distinctive and challenging for rivals to mimic. We use Business Capability as a mediating variabel cause to Cooperative performance there the managers should have a business orientation to success. To drive the growth and long-term success of cooperative enterprises, it is essential for management to be both financially literate and financially aware. This means not only understanding basic financial concepts but also being able to apply them strategically in decision-making processes. As highlighted by Indra et al. (2021), equipping cooperative managers with the necessary financial knowledge and skills is a fundamental step toward improving overall cooperative performance and ensuring their competitiveness in the marketplace.

Cooperatives differ from individual businesses in that ownership is determined by members with equal voting rights, as opposed to individual businesses where ownership is determined by the size of the shares. The General Meeting of Shareholders (GMS) of corporations and the General Meeting of Members (RUA) of cooperatives are where the most important decisions are made. In cooperatives, members act as owners and turn over

management with the responsibility of running the business and social aspects of the cooperative. For cooperatives to be effective and compete with other commercial organizations, management and managers need to have a business sense.

A thorough understanding of cooperative management is essential for the growth and development of cooperatives. This knowledge, often referred to as cooperative literacy, plays a crucial role in ensuring that cooperatives operate effectively and sustainably. According to Sakdiyah et al. (2019), cooperative literacy encompasses all knowledge related to cooperatives and their associated functions. It is defined by the ability to recall, comprehend, and apply relevant information when making decisions and managing cooperative activities. By fostering cooperative literacy among managers and members, cooperatives can enhance their operational efficiency and long-term viability. A well-informed management team is better equipped to navigate challenges, implement strategic initiatives, and ensure that cooperative principles are upheld. Therefore, investing in cooperative education and training programs is vital for strengthening cooperative institutions and maximizing their economic and social contributions. Cooperative knowledge has no impact on cooperative performance, according to research by Sari & Purwanto (2022) on cooperatives in the Bantul district. According to research by (Sakdiyah et al., 2019) on KPRI in Banda Aceh City, the outcomes of cooperative knowledge on members have a substantial impact on cooperative performance.

According to institutional and organizational theory, a thorough understanding of organizational values and structures influences the organization's ability to perform its functions efficiently. Management of cooperatives with strong cooperatives literacy will be better equipped to manage resources, establish business strategies and implement business choices based on cooperative principles. Cooperative Literacy promote members to actively participate in cooperative business activities. Such engagement helps the cooperative strengthen its ability to manage business decisions, expand market network and provide higher quality services to members. As a result, cooperative literacy is expected to improve cooperatives business capability.

Cooperative literacy not only helps cooperatives improve their business capability, but it can also have a direct impact on cooperative performance. A thorough understanding of cooperative principles and values will lead to more transparent, participatory and accountable organizational management. This circumstance promotes better cooperative governance, which increases cooperative performance. Cooperative managers who are highly literately cooperative will have a better understanding of cooperatives goals as membership based economic entities. This knowledge promotes alignment between the cooperative commercial activities and its members interest, boosting the cooperative economic and social success. Thus, cooperative literacy is expected to have a positive effect on cooperative performance.

Modern humans need financial intelligence, specifically financial intelligence in managing their own finances. According to Klapper & Lusardi (2020) people need to be financially literate to make informed financial choices regarding saving, investing, borrowing and more. Financial literacy can be defined as financial knowledge with the aim of achieving wealth. According to Lusardi & Mitchell (2023) financial literacy is people knowledge of and ability to use fundamental financial concept in their economic decision making. The Indonesian National Strategy for Financial Literacy Handbook (2021) describes financial literacy as a set of procedures or actions aimed at boosting consumers' knowledge, self-assurance, and abilities so they can better handle their finances. Financial literacy is the capacity to manage your money so that you can grow and have a wealthier life in the future. Literacy is described as the capacity to understand; thus, it is the capacity to manage money.

According to data from the Financial Services Authority's (OJK) third National Financial Literacy and Inclusion Survey (SNLIK), the financial inclusion index in Indonesia was 76.19%, while the financial literacy index was 38.03%. This number has increased compared to the findings of the 2016 OJK survey, which showed a financial inclusion index of 67.8% and a financial literacy level of 29.7%. The survey's findings revealed an 8.33% rise in the general public's financial literacy. Financial literacy revolves around money in some way. This element entails understanding the various uses and forms of money as well as managing straightforward financial activities like payments for necessities, shopping, money values, bank cards, checks, bank accounts, and currencies. Financial literacy discusses key facets of financial literacy, such as improved planning and management of wealth over the long and short term, with a focus on knowledge and skills related to tracking income and expenses and making use of income and other resources to increase financial well-being. Financial literacy comprises several key components, including Money and Transactions, Financial Planning and Management, Risk and Profit, and the Financial Landscape. These elements collectively enable individuals to make informed financial decisions and manage their resources effectively. A critical aspect of financial literacy is the ability to identify and balance financial risks, which can be achieved through various means such as insurance and savings products.

Additionally, financial literacy involves understanding potential gains and losses across different financial contexts and products. This includes the ability to assess investment opportunities, navigate credit agreements with variable interest rates, and make strategic financial choices that align with long-term goals. By developing these skills, individuals and organizations, including cooperatives, can enhance their financial stability and resilience in an ever-changing economic environment. Knowing the characteristics and aspects of the financial world entails understanding the main effects of financial contracts, as well as the rights and obligations of consumers in financial markets and the broader financial environment. Understanding the effects of shifting economic conditions and societal policies, including interest rates and taxation, is also a part of this element. A competitive and stable economy will result from the promotion of financial literacy (Goyal & Kumar, 2021). Financial literacy has broad consequences for the health of the nation's economy. Indra et al. (2021) concluded that cooperative managers need to become more financially literate in order to improve financial performance. Their research focused on the implementation of financial literacy on cooperative performance. The sustainability of cooperatives is disrupted because managers and administrators still have a poor level of financial literacy. According to Utami & Darmawan (2021) financial literacy and cooperative performance in Buleleng, Bali, are positively correlated.

In the context of cooperatives, financial literacy plays a significant role in improving cooperatives business capabilities. Cooperative managers with strong financial literacy will be able to create accurate financial reports, effectively manage cash flow make sound investment and financial decisions. This will improve cooperative's ability to conduct its business activities. Furthermore, financial literacy improves the cooperative's ability to confront economic risks and changes in the business environment. Cooperative managers that have a solid financial understanding can develop more adaptable and sustainable business plan. Consequently, financial literacy is expected to improve cooperative business capability. Financial literacy improves cooperative performance by enabling greater financial management ability. Cooperative managers that are financially literate will be able optimize capital allocation, decrease financial risk and improve operational efficiency. This has remification for improving the cooperatives financial performance. Understanding financial

concepts also contributes to improved accountability and openness in cooperative management. This condition has the potential to boost member and stakeholder trust, so increasing the cooperatives long term sustainability. So, financial literacy has positive impact to cooperative performance.

For business organizations, maintaining their competitiveness in today's rapidly evolving market and business environment is a major challenge. Because of this, it's important to be able to foresee the direction of the market and have insight into both obvious and subtle client wants. The ideas of skills, competences, procedures, and resources are all intimately tied to the idea of business capabilities. Capability is the capacity to outperform rivals by utilizing a collection of commercial characteristics that are unique and challenging to duplicate. Business Capability arise in part of learning, from combining resources and from exploiting complementary assets (Teece, 2019). According to the viewpoints and definitions presented above, business capability play a significant part in a company's ability to run its operations successfully and outcompete its competitors. Performance across all businesses will be impacted by business capabilities. All companies with a business focus, whose success is backed by their managers' and executives' commercial acumen. Senior managers can understand the organization's business capabilities, which offer a holistic perspective. Furthermore, Ernita et al. (2020) emphasizes that comprehending capabilities requires entrepreneurial skill to active interaction with the environment and the effective use of additional resources. Capability, in this context, refers to a person capable of overseeing business opportunities, gathering whatever resources are needed and taking planned action to achieve success. In other word, the ability of a resource to create an impact on its surroundings through structured processes, the utilization of both tangible and intangible assets, and the development of valuable customer relationships. By leveraging these capabilities, organizations can enhance their adaptability, improve operational efficiency, and create long-term value. The ability to integrate various resources strategically enables businesses and cooperatives to remain competitive and responsive to changing market dynamics. This highlights the importance of continuous learning, innovation, and effective resource management in achieving sustainable growth. Many capabilities become embedded in routines and some reside with the top of management team (Teece, 2019).

According to the resource base theory, an organizations performance determined by its capacity to effectively and effectively manage its resources. Cooperative with strong business capabilities will be able to boost production, expand market and provide better service to their members. This ultimately has an impact on improving cooperative performance. Cooperative Performance measures cooperative achievements in both financial and non financial areas, such as cooperative growth, increasing member welfare and business sustainability. Thus, cooperative business capability determines its performance.

Cooperative literacy and financial literacy have a direct effect on cooperative performance but it also improves the business capability to carry out business tasks. A solid understanding of cooperative principles, governance and financial knowledge will inspire cooperative managers to create more effective business plan that suit the demand of its members. This improved understanding is evident in cooperative business capability, wich refers to its ability to run its operations professionally and effectively. Good business capability leads to improved cooperative performance. Hence, business capability is believed to be the mechanism behind how cooperative literacy and financial literacy might increase cooperative performance. In other word, business capability can mediate between cooperative literacy and financial literacy contributing to cooperative performance.

The outcomes of work activities or organizational activities that are influenced by different elements to achieve organizational goals within a specific time frame are known as organizational performance. The word "performance" is derived from "job performance" or "actual performance," and it refers to the organization's actual performance. The definition of organizational performance itself is the outcome of the organization's achievement of work in quality and quantity while carrying out its obligations in line with those delegated to it.

Cooperative performance measurements have been done using financial and non-financial ways internal and external aspects (Siregar, 2020), and a balanced score card (Wahyudi & Aini, 2020). In general, institutions (number of cooperatives per province, number of cooperatives per type or group of cooperatives, number of active and inactive cooperatives), membership, business volume, capital, assets, and the remaining results of operations are the performance of cooperatives that are measured to see the development or growth of cooperatives in Indonesia. In essence, these variables cannot be utilized to reflect accurately the contribution or function of cooperatives to national economic development. Similarly, the influence of cooperatives (cooperative effect) on enhancing the welfare of members or the community has not been reflected in the variables.

Three elements are identified by Das & Mishra (2019) as having an impact on organizational performance. First, individual determinants include a person's aptitudes, competencies, family history, professional experience, socioeconomic status, and demography. Second, psychological elements like motivation, attitude, personality, and role, as well as perception, role, and attitude. Finally, there are organizational elements, such as job design, leadership, operational systems, and procedures. This study adopts the perspective of managers and administrators who oversee cooperative operations, as their role is crucial in ensuring the success and sustainability of cooperatives. Effective administration and management are fundamental to the overall performance of these organizations, influencing decision-making, financial stability, and strategic growth. Wahyudi & Aini (2020) conducted research that specifically examined cooperatives from the viewpoint of their administrators and managers. Their study highlights the importance of leadership, governance, and managerial competence in enhancing cooperative efficiency and achieving long-term success. Understanding these perspectives provides valuable insights into the challenges and opportunities faced by cooperative leaders, reinforcing the need for continuous capacity building and professional development in cooperative management.

The study hypothesizes that cooperative literacy positively improves business capability and cooperative performance, and that financial literacy positively enhances business capability and improves cooperative performance. It also posits that business capability positively improves cooperative performance. In addition, the study proposes a mediation mechanism in which business capability mediates the effect of cooperative literacy on cooperative performance and the impact of financial literacy on cooperative performance.

METHODS

Cooperative management respondents in West Java, including chairmen, secretaries, and treasurers, participated in this study at cooperatives there. There were 581 responders in all consist of chairperson, secretary and treasurer cooperative in West Java Indonesia. A questionnaire with a scale of 1–10 was used to collect the data. The study's construct variables include cooperative literacy, financial literacy, business capability, and cooperative performance. Regression testing was done using PLS-SEM mediation analysis followed by

data analysis to verify the validity and reliability of the instrument. PLS-SEM provide a comprehensive overview of consideration and metrics required analysis and result reporting (Hair et al., 2019). This research utilized WarpPLS 8 for data analysis. Data collection was conducted using a questionnaire instrument designed to assess four key variables: Cooperative Literacy (X1), Financial Literacy (X2), Business Capability (M), and Cooperative Performance (Y). These variables were measured to evaluate their relationships and overall impact on cooperative success.

This research uses a quantitative approach with primary data collected through questionnaires. The object of this research is cooperatives management in West Java. The questionnaire uses Google Forms, which were sent to cooperatives in West Java on a scale of 1-10. The target number of respondents was 600, distributed among the cooperative management in West Java, and 581 respondents met the criteria to be processed in the data analysis. This shows a response rate of 96%. The respondents are the cooperative management, consisting of the Chairperson, Secretary, and Treasurer. The respondents in this study were between 25 and 60 years old and held various positions within cooperatives. The composition of their roles included 40.67% serving as Chairpersons, 37.72% as Secretaries, and 21.61% as Treasurers. Their educational backgrounds varied, with 10.62% having completed high school, 31.23% holding a diploma, 52.43% earning a bachelor's degree, and 5.72% possessing a master's degree. This diversity in roles and educational qualifications provides a well-rounded perspective on cooperative management in the region.

The respondents were selected from various districts across West Java, ensuring a representative sample of cooperative administrators. The sampling method used in this study was purposive sampling, specifically targeting cooperative managers. This approach was chosen to obtain insights from individuals who play a direct role in cooperative operations and decision-making. By focusing on these key stakeholders, the study aims to provide a comprehensive understanding of the challenges and opportunities faced by cooperative management in West Java.

The empirical model consists of two Structural Equations. The first equation models Business Capability as a function of Cooperative Literacy and Financial Literacy. The second equation models cooperative performance as a function of Cooperative Literacy, Financial Literacy and Business Capability. The form of the equation in this study is as follows:

$$BC = \beta_0 + \beta_1 CL + \beta_2 FL + \varepsilon_t \dots\dots\dots(1)$$

$$CP = \beta_0 + \beta_1 CL + \beta_2 FL + \beta_3 BC + \varepsilon_t \dots\dots\dots(2)$$

Note: CP denotes Cooperative Performance, BC denotes Business Capability, CL denotes Cooperative Literacy, FL denotes Financial Literacy, β_0 denotes intercept, and ε_t denotes error.

The distribution of the research sample shows that 581 responden spread across West Java. Data was gathered using a questionnaire distributed to active cooperative managers. The data is then processed using SemPLS with WarpPLS 8.0. WarpPLS is particularly advantageous in modelling complex and potentially non linear relationship and in detecting hidden patterns that may be overlooked by conventional linear PLS-SEM approaches. Therefore, it is suitable for exploratory and theory buiding research context. WarpPLS is also robust in handling relatively small to moderate sample size and does not require strict assumption of multivariate normality, making it appropriate for survey based data commonly found in cooperative and smal entreprise research context.

Variable using in this research are Cooperative Literacy (CL), Financial Literacy (FL) Business Capability (BC) and Cooperative Performance (CP). The quantity of indicators for each variable is as follows: There are six indicators for cooperative literacy, four for financial

literacy, five for business capability, and eleven for cooperative performance. Each indicator is measured on a 1-10 scale in the questionnaire. The model used to determine the relationship between latent variables and their indicators is referred to as the measurement model, also known as the outer model.

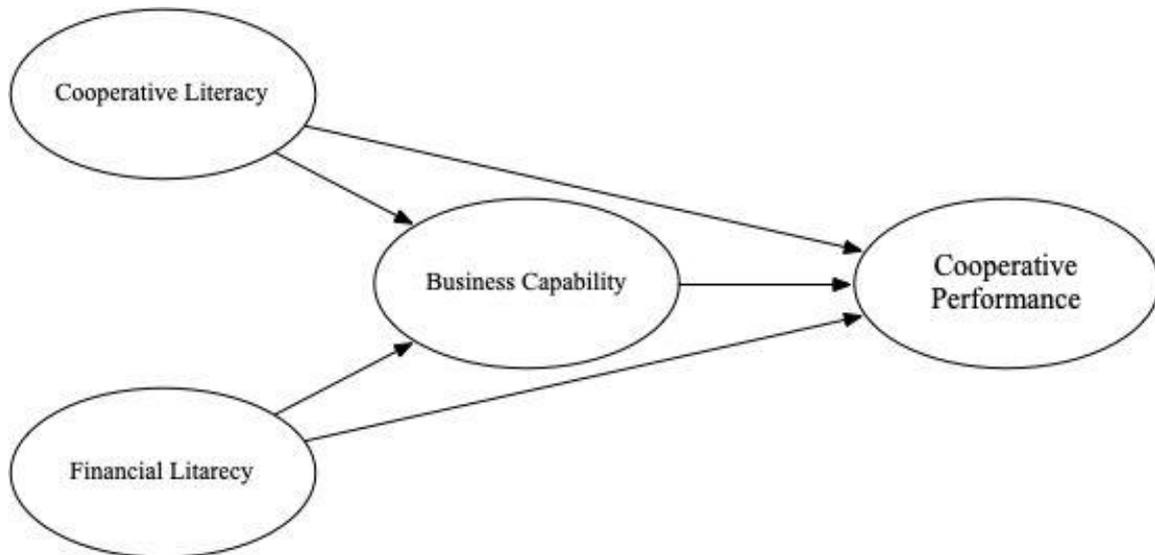


Figure 1. Research Model

Source: Data processed, 2026

This model plays a crucial role in validating the constructs used in the study by assessing their reliability and validity. One of the key indicators for evaluating the outer model is the outer loading value, where all indicators must have a loading factor greater than 0.7. This threshold is used in the convergent validity test to confirm that each indicator adequately represents its corresponding latent variable.

RESULT AND DISCUSSION

Reliability testing is conducted using the Composite Reliability (CR) value, which must be greater than 0.70 to indicate internal consistency. These measures collectively ensure that the model is robust, providing accurate and reliable results for further analysis.

Table 2. Composite Reliability Test

Variable	Value
Cooperative Literacy	0.951
Financial Literacy	0.949
Business Capability	0.943
Cooperative Performance	0.970

Source : Data processed, 2026

The reliability test in this study is evaluated using composite reliability results, which measure the internal consistency of the indicators associated with each variable. A variable is considered reliable if its composite reliability value exceeds 0.70, signifying a strong correlation among its indicators and ensuring that the measurement model is stable and dependable. A high composite reliability value suggests that the observed variables consistently reflect the underlying construct, reducing the risk of measurement errors.

The study evaluates discriminant validity to ensure that each construct is distinct from others within the model, preventing any significant overlap that could compromise the integrity of the findings. Discriminant validity is considered satisfactory when the square root of the Average Variance Extracted (AVE) for each construct is greater than the correlations between that construct and others in the model. It is indicated by an Average Variance Extracted (AVE) value greater than 0.5, signifying that the instrument effectively captures the variance of its respective indicators, thereby confirming its validity. One of the most widely used methods for assessing discriminant validity is the Fornell-Larcker Criterion, which states that discriminant validity is achieved if the square root of the AVE of a construct is greater than its correlation with any other construct in the model. As presented in Table 3, all square root AVE values (diagonal values) exceed the correlations between constructs, confirming that discriminant validity is successfully met.

Table 3. Fornell-Larcker Criterion

	Cooperative Literacy	Financial Literacy	Cooperative Performance	Business Capability
Cooperative Literacy	0.874	0.660	0.814	0.779
Financial Literacy	0.660	0.908	0.385	0.633
Cooperative Performance	0.814	0.385	0.877	0.765

Source: Data processed, 2026

Specifically, cooperative literacy exhibits a square roots AVE (0.874) greater than its highest correlation with cooperative performance (0.814) and business capability (0.779). Financial Literacy demonstrates the strongest discriminant validity, with a square root AVE (0.908) exceeding its correlation with cooperative literacy (0.660), business capability (0.633) and cooperative performance (0.385). Likewise, cooperative performance shows a square root AVE (0.877) higher on its correlation with cooperative literacy (0.814) and business capability (0.765). Business capability also satisfies the criterion, with a square root AVE (0.866) greater than its correlations with cooperative literacy (0.779) and cooperative performance (0.765). These results indicate that each construct shares more variance with its own indicators than with others construct, confirming adequate discriminant validity. Therefore, the measurement model demonstrates that cooperative literacy, financial literacy, business capability and cooperative performance represent empirical distinct concepts.

Convergent validity was evaluated by examining the indicator loadings and the average variance extracted (AVE) for each construct. Convergent validity is considered adequate when indicator loadings exceed 0.70 and AVE greater than 0.50. The results indicate that all measurement items load strongly on their respective constructs, with standardized loading exceeding the recommended threshold. In addition, the AVE values for cooperative

literacy, financial literacy, business capability and cooperative performance are all above 0.50, demonstrating that each construct explains more than half of variance of its indicators. These findings confirm that the indicators associated with each construct converge well in representing the same underlying concept. Therefore, the measurement model satisfies the criterion of convergent validity, indicating that cooperative literacy, financial literacy, business capability and cooperative performance are reliably and valid measured by their respective indicators.

Evaluation of the structural model or inner model includes the coefficient of determination (R Squared), the relevance of the prediction (Q Squared) and the effect size (F Squared). R^2 measures how much the independent variable can explain the dependent variable in the model or evaluate the predictive power of the model. The higher the R^2 , the stronger the model. Q^2 measures the model's ability to predict the value of data that has been removed using the blindfolding technique. If $Q^2 > 0$, it means the model has good predictive relevance. F^2 measures the extent of the influence of one latent variable on another latent variable in the inner model. If f^2 is large, it means the relationship between the variables is strong. The results of the inner model test can be seen as follows:

Table 4. R^2 and Q^2 Value

	R-Square	Q-Square
Business Capability	0,638	0,712
Cooperative Performance	0,762	0,754

Source: Data processed, 2026

The R-square value suggests that Cooperative Literacy and Financial Literacy can explain 63.8% of the variation in Business Capability. This suggests that knowledge-based factors play a substantial role in shaping the operational and managerial capability of cooperatives. A higher R-squared value suggests a stronger explanatory power of the model in relation to the dependent variable. Furthermore, Cooperative Literacy, Financial Literacy, and Business Capability can explain 76.2% of the variation in Cooperative Performance. This level of explained variance can be classified as high, indicating that the proposed model provides a strong representation of determinants of cooperative performance. The Q-Squared (Q^2) value, which measures the predictive significance of the model in explaining the relationships between latent constructs. A Q-square value greater than zero suggests that the model can forecast accurately. These findings confirm the robustness of the estimation model, highlighting its ability to provide reliable predictions and valuable insights for further research and practical applications. These results indicate that structural relationships not only explain past observations but also possess meaningful predictive accuracy for future performance outcomes. In particular, the higher Q-square value for cooperative performance suggests that the combined effects of cooperative literacy, financial literacy, and business capability provide robust predictive insight into cooperative performance.

Table 5, Effect Size (F²)

	F-Square
Cooperative Literacy → Business Capability	0.677
Financial Literacy → Business Capability	-0.039
Cooperative Literacy → Cooperative Performance	0.146
Financial Literacy → Cooperative Performance	0.222
Business Capability → Cooperative Performance	0.394

Source: Data processed, 2025

The f-square value indicates that Cooperative Literacy has a substantial influence on Business Capability and on Cooperation Performance, whereas Cooperative Literacy and Financial Literacy have a small influence on Cooperative Performance. The effect size (F²) or partial F-test is used to explain the significant proportion of some independent variable variations in the dependent variable. Therefore, the impact of cooperative literacy on cooperative performance is bigger than the impact of financial literacy.

The Goodness of Fit (GoF) test is used to assess how well the overall model explains the observed data. This evaluation ensures that the model provides an adequate representation of the relationships between variables, thereby enhancing its reliability and predictive accuracy. A well-fitting model indicates that the theoretical framework aligns with the empirical data, supporting the validity of the research findings.

Table 6, Testing the Goodness of Fit Model

Criteria	Cut off Value	Result	Evaluation
Average path coefficient	P Value ≤ 0,05	0,001	Fulfilled
Average R-Squared (ARS)	P Value ≤ 0,05	0,001	Fulfilled
Average adjusted R-Squared (AARS)	P Value ≤ 0,05	0,001	Fulfilled
Average Block VIF (AVIF)	≤ 3,3 but ≤ 5 still acceptable	2,181	Ideal
Tenenhouse GoF (GoF)	≥ 0,10 (small); ≥ 0,25 (moderate); ≥ 0,36 (large)	0,737	Large

Source: Data processed, 2025

Table 6 shows that overall, in accordance with the cutoff criteria, the model fit test is satisfied. The P-Value for the APC, ARS, and AARS values is ≤ 0.05. The AVIF value is also at its optimal level, which is 3.3. The major criteria include the 0.757 Tenenhouse Good of Fit score. From the Goodness of Fit test, all methods meet the specified criteria, so it can be concluded that the tested research model has good validity and reliability. Furthermore, the model can be used to draw reliable conclusions and has good predictive quality, so the research results can be used for policy recommendations or business decisions. The following research model demonstrates how hypothesis testing is done.

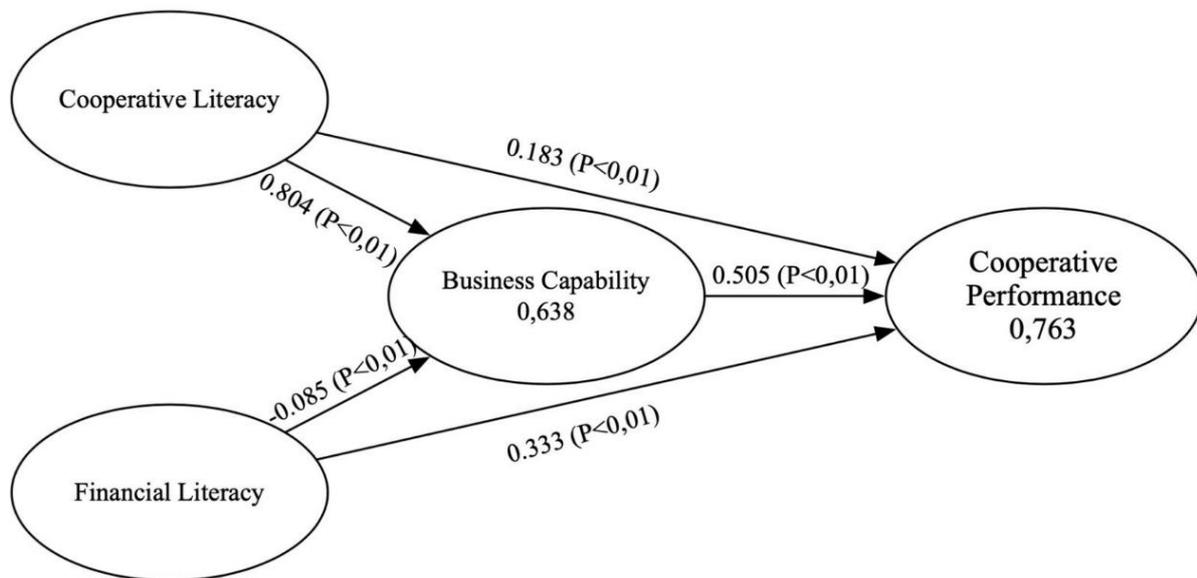


Figure 2. Output Model

Source: Data processed, 2026

To assess the effectiveness of the research model, the path coefficient and its corresponding P-value are analyzed. The path coefficient measures the strength and direction of the relationship between variables, while the P-value indicates the statistical significance of these relationships. In this study, a P-value threshold of 0.05 is used, meaning that any relationship with a P-value below this level is considered statistically significant, reducing the likelihood of error in hypothesis testing.

The following table presents the test results obtained using WarpPLS 8, highlighting the path coefficients and their respective P-values. These findings provide valuable insights into the direct and indirect effects of variables within the model, helping to determine the validity and predictive power of the proposed relationships. By evaluating these metrics, researchers can assess the overall robustness of the model and its alignment with theoretical expectations.

Table 7. Hypothesis Testing of Direct Effect

Variable	Path Coefficient	P-Value	Conclusion
Cooperative literacy → Cooperative Performance	0.184	<0,01	Significant
Financial Literacy → Cooperative Performance	0.333	<0,01	Significant
Business Capabilty → Cooperative Performance	0.505	<0.01	Significant
Cooperative literacy → Business Capabilty	0.804	<0,01	Significant
Financial Literacy → Business Capabilty	-0.085	<0,02	Significant

Source: Data processed, 2026

According to the study's findings, business capability, financial literacy, and cooperative literacy all have a favorable and significant impact on cooperative performance. According to research, cooperative knowledge (cooperative literacy) from cooperative managers and administrators will have a positive impact on cooperative performance

((Triwani et al., 2020). Additionally, strong financial literacy will enhance cooperative performance; these findings are consistent with previous studies (Utami & Darmawan, 2021; Indra et al., 2021).

The significance value of $p=0.01$ meets the standard value of 0.01 and indicates that there is a significant relationship between Cooperative Literacy, Financial Literasi and Business Capability to Cooperative Performance, with path coefficients of respectively 0.184, 0.333 and 0.505. This supports the hypothesis that there is a direct relationship between Cooperative Literacy, Financial Literacy and Business Capability to Cooperative Performance, because the significance value of $p < 0.001$. The empirical result provides strong support for the integration of the Resource Based View and Institutional theory in explaining the role cooperative literacy, financial literacy and business capability to enhance cooperative performance.

A path coefficient from Cooperative Literacy to Business Capability is positive and highly significant (CL to BC; $\beta= 0.804$, $p<0.001$) indicating that cooperative literacy constitutes critical intangible organizational resources that strengthen there is a significant correlation. In contrast, there is a weak relationship between Financial Literacy to Business Capability. Financial Literacy exhibits a negative and significant on business capability (FL to BC; $\beta=-0.085$, $p=0.020$), while its indirect effect on cooperative performance through business capability is also negative (FL to BC to CP; $\beta=-0.043$). These findings suggest that financial literacy alone does not function as strategic resource in cooperative context unless it is integrated with cooperative literacy and institutional understanding. Unlike cooperative literacy, which simultaneously strengthens capability and institutional alignment, financial literacy appears to lack the normative and organizational embeddedness required to translate financial knowledge into enhanced business capability. Based on this description, to improve the performance of cooperatives, cooperative administrators and managers must have high cooperative literacy by participating in cooperative training. The more knowledge of cooperatives increases, the better management of cooperatives so that the performance of cooperatives increases. Based on the questionnaire distributed to cooperative management in West Java in this study, cooperative knowledge (cooperative literacy) still needs to be improved.

Financial literacy is also important for cooperative management, so that the direct effect to cooperative performance is higher (FL to CP; $\beta=0.333$, $p<0.001$), management must have better financial knowledge. Cooperative management must continue to learn and increase knowledge through education or training that sharpens knowledge of financial management. Effect of financial literacy on business capabilities was found to be weak and negative. This unexpected result may indicate that financial knowledge alone is insufficient to improve business capability unless it is supported by adequate managerial skills and organization system. Cooperative literacy path coefficients have greater value than financial literacy path coefficients in relation to business capabilities. This means that cooperative literacy has more influence on the business capabilities of cooperative management. Cooperative literacy is not just about understanding cooperative principles. It directly enhances business capabilities by improving decision making, governance and adaptability. When cooperative managers are well versed in cooperative operations, they can lead organization more effective and sustainably.

In the relationship with cooperative performance, the opposite occurs: financial literacy has a path coefficient ($\beta=0.333$) that is greater than the cooperative literacy path coefficient ($\beta=0.184$). Financial literacy significantly impacts on cooperative performance.

This happens because cooperative operates with a unique financial structure that requires careful handling of funds, member contributions and profit distribution. Financial literacy is backbone of cooperative management.

An indirect effect comes when the independent variable influences the dependent variable through a mediator variable. A test of the indirect influence of the variable Business Capability is performed to determine its mediating role in the study equation. Business capability is intended to strengthen the impact of cooperative literacy and financial literacy on cooperative performance. The indirect effect test determines whether a p-value of <0.05 indicates a significant or meaningful indirect effect. If $p > 0.05$ is not significant, there is no obvious indirect effect.

Table 8. Hypothesis Testing of Indirect Effect

Variable	Path Coefficient	P-Value	Conclusion
Cooperative literacy → Business Capability → Cooperative performance	0.405	$< 0,01$	Significant (Mediation Effect)
Financial literacy → Business Capability → Cooperative performance	-0.043	0.072	Not Significant (No Mediation Effect)

Source: Data processed, 2026

Business Capability plays a crucial role in mediation the relationship between Cooperative Literacy and Cooperative Performance, thereby supporting the proposed hypothesis. The findings indicate that Cooperative Literacy has a positive and significant direct impact on Cooperative Performance, meaning that cooperatives with higher literacy levels tend to perform better. However, the presence of Business Capability further strengthens this relationship by serving as a mediating factor. This type of mediation is referred to as partial moderation, as Business Capability does not fully replace the direct effect of Cooperative Literacy on Cooperative Performance but rather enhances and complements it. These results highlight the importance of equipping cooperative managers with both business knowledge and operational skills, ensuring that cooperatives can maximize their potential and improve their overall efficiency and success.

The findings indicate that Business Capability does not mediate the relationship between Financial Literacy and Cooperative Performance, leading to the conclusion that the hypothesis is not supported. While Financial Literacy has a positive and significant direct effect on Cooperative Performance ($p < 0.05$), the indirect effect through Business Capability is not statistically significant ($p \geq 0.05$). This suggests that although financial literacy directly enhances cooperative performance, Business Capability does not serve as an effective mediating factor in this relationship. These findings suggest that financial literacy alone is a key driver of cooperative success, independent of business capability. This underscores the critical role of financial knowledge and management skills in enhancing cooperative performance, emphasizing the importance of equipping cooperative managers with strong financial literacy to ensure effective decision-making and sustainability.

Overall, the findings demonstrate that the relationship between Cooperative Literacy and cooperative performance is best explained by combined RBV-institutional perspectives. Cooperative literacy function as a strategic organizational resource that enhance business

capability (CL to BC; $\beta=0.804$, $p < 0.001$) and simultaneously reinforces conformity to cooperative norms and governance principle (CL to CP; $\beta=0.184$, $p < 0.001$). Business capability serves as key mediating mechanism ($\beta_{\text{indirect}}=0.405$) through which cooperative literacy is translated into superior cooperative performance (BC to CP; $\beta=0.505$, $p < 0.001$). These results provide empirical evidence that cooperative performance is driven not only efficiency-based mechanisms emphasized by RBV, but also legitimacy-based mechanisms emphasized by institutional theory.

Integrating RBV and Institutional theory, the findings show that internal strategic resources and institutionalized knowledge work together to shape cooperative performance. RBV illustrates how cooperative literacy improves business capability as a fundamental organizational competency, whereas institutional theory reveals how cooperative literacy encourages adherence to cooperative norms and governance principles. As a result, cooperative literacy serves not just as a technical resource but also as an institutional vehicle for aligning organizational activities with cooperative principles. This dual role emphasizes that improving cooperative performance requires both managerial capability and institutionalized knowledge incorporated into members and leaders.

However, further research is necessary to examine whether other factors, such as leadership effectiveness, market conditions, or industry dynamics, play a role in shaping the relationship between financial literacy, business capability, and cooperative performance. A deeper exploration of these variables could provide a more comprehensive understanding of the mechanisms that contribute to cooperative success.

Table 9. Hypothesis Summary

Hypothesis	Relation	Result	Conclusion
H1	Cooperative literacy → Business Capabilty	Accepted	Positive and strong relation (TE=0.804)
H2	Financial Literacy → Business Capabilty	Not Accepted	Negative and weak relation (TE=-0.085)
H3	Cooperative literacy → Cooperative Performance	Accepted	Positive and Strong relation (TE=0.589)
H4	Financial Literacy → Cooperative Performance	Accepted	Positive and Medium relation (TE=0.290)
H5	Business Capabilty → Cooperative Performance	Accepted	Positive and strong relation (TE=0.505)
H6	Cooperative literacy → Business Capability → Cooperative performance	Mediated	Indirect Effect = 0.405
H7	Financial literacy → Business Capabilty → Cooperative performance	Not Mediated	Indirect Effect = - 0.043

Source: Data processed, 2026

CONCLUSIONS

This study concludes that Cooperative Literacy, Financial Literacy, and Business Capabilities have a significant impact on Cooperative Performance. Additionally, both cooperative literacy and financial literacy significantly influence business capabilities, with cooperative literacy playing a more substantial role in shaping business capabilities compared to financial literacy. Conversely, when examining the direct effect on cooperative performance, Financial Literacy has a stronger influence than Cooperative Literacy.

Furthermore, Business Capability serves as a mediating factor on relationship between Cooperative Literacy to cooperative performance, but no effect for Financial Literacy. These findings highlight the importance of enhancing Cooperative Literacy while strengthening Business Capabilities and strengthening Financial Literacy to drive overall Cooperative success. Therefore, it is important for cooperative management to continue to improve both literacy through education and training organized by related departments or institutions to improve the management's business capabilities and overall cooperative performance. One limitation of this study is the need to expand the number of respondents, particularly by increasing the participation of cooperative management in West Java. A larger sample size would enhance the robustness and generalizability of the findings, leading to more comprehensive and reliable results. Additionally, future research should consider extending the study to other regions beyond West Java to gain a broader perspective on cooperative performance and management practices. Expanding the geographic scope would allow for a comparative analysis across different areas, providing deeper insights into the factors influencing cooperative success.

Theoretical implication of this research are first, this study contributes to RBV by expanding its explanatory power beyond solely economic outcomes, demonstrating how business capability influences cooperative literacy as an institutional resource. Second, it contributes to Institutional Theory by demonstrating that cooperative literacy is not solely a result of external pressure but is also shaped by internal strategic skills. Third, the mediating structure shows that cooperative literacy is a more effective transmission channel than financial literacy for linking business capability to corporate performance, implying that institutional conformity may be more important than financial structuring in achieving long-term performance. This integrated framework promotes a hybrid theoretical approach in which internal resources and external legitimacy both contribute to company performance. For cooperative managers and policy makers, the finding emphasizes the strategic importance of investing in cooperative literacy through training, education programs and knowledge sharing initiatives. Improving managers understanding of cooperative principles, and financial management can significantly enhance business capability and cooperative performance. Managers should focus not only on acquiring financial resources but also on developing internal capabilities derived from knowledge and skills. In addition, the negative relationship financial literacy to business capability suggests that financial literacy cooperatives tend to adopt more prudent financial strategies. Therefore, cooperative leaders should balance external financing and internal resource development to ensure sustainable performance. One limitation of this study is the need to expand the number of respondents, particularly by increasing the participation of cooperative management in West Java. A larger sample size would enhance the robustness and generalizability of the findings, leading to more comprehensive and reliable results. Additionally, future research should consider extending the study to other regions beyond West Java to gain a broader perspective on cooperative performance and management practices. Expanding the geographic scope would allow for a comparative analysis across different areas, providing deeper insights into the factors influencing cooperative success. This research was conducted with the support of the Universitas Kuningan through its internal competition grant funding. We sincerely appreciate the university's support in facilitating this study.

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