

The Effect Of Liquidity And Business Volume On Cooperative Performance

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Abstract:

In contemporary financial discourse, the concepts of liquidity, business volume and financial performance occupy a central position in the cooperative savings and loan business. Analysis of the impact of liquidity and business volume on cooperative performance is the objective of this study. The research population consisted of 88 cooperative savings and loan institutions located in Malang City. A purposive sampling technique was employed to choose the sample, resulting in the acquisition of 61 samples. The study findings suggest that there is no impact of liquidity on cooperative business performance. In contrast, the level of business activity impacts the performance of cooperatives. This finding provides practical implications for cooperatives that resources typically used to maintain liquidity could be better utilized in growth initiatives, such as expanding membership or diversifying services.

Keywords: liquidity, business volume, cooperative performance.

1. Introduction

A cooperative is a form of business organization that is owned and run jointly by its members, sharing the costs and profits of the business operations in accordance with cooperative principles as set out in their internal rules. Cooperative businesses can take many forms; one of which is a savings and loan cooperative (LSC). LSC is a financial cooperative owned by the people who use its services. It is formed for the purpose of providing loans to its members, allowing them to borrow at a reasonable rate of interest from their pooled resources. In the real sector, the more important role cooperatives could play in the fight against poverty is bringing the benefits of newfound growth to those most in need, giving people a voice and a share of the market. Cooperatives have been observed to have a more positive impact on societies, their members, and members' families than other forms of businesses. A cooperative is most successful when it offers loans at a more reasonable rate than commercial banks and makes financial planning and education a priority for its members. Based on data from the Ministry of Cooperatives and Small and Medium Enterprises of the Republic of Indonesia, the trend of cooperative development increases by 10-12 percent each year. In addition, LSC in Indonesia is recorded at 8,761 units.

The economic success of a member-controlled cooperative firm, can be measured by the surplus or residual business results (RBR) that it generates for its members. Unlike other types of firms, cooperative firms function under the direct control of their members and the nature of economic interests may induce the top management to maximize BRR allocation to its members. BRR that is generated by a cooperative firm during the course of the fiscal year can be allocated to its members or it can be retained by the firm to finance growth or to finance the increase in the scale of the service demands. Data released by the Central Statistics Agency shows that the BRR cooperative for East Java province in 5 years (2017 - 2021) tends to increase.

Tabel 1 BRR for East Java province
20017 – 2021 (in millions of rupiah)

Year	Residual Business Results (BRR)
2017	693.906
2018	868.520
2019	1.056.007
2020	1.327.550
2021	1.302.856

Cooperatives business are similar to the mutual savings bank thrift charter in that lenders are member-depositors. Unlike mutual savings banks, however, Cooperatives depository membership is limited to households whose employment falls within specified occupational constraints. At one time, Cooperatives customer membership was often limited to members. The potential for Cooperatives to help low and moderate income communities by providing affordable credit and basic financial services has long been recognized by scholars. Cooperative business must distribute a portion of its surplus to its customers on the basis of business done with the cooperative, the owners of the cooperative or customers of the cooperative. The motivation is that surplus sharing would reduce dehydration of cooperation between different customer groups having different levels of loyalty. It would also increase the return from membership. The other profit motive would remain to create and distribute a surplus to the customer-owners on the basis of their patronage.

Cooperative institutions usually have the legal structure of savings and loans associations; that is, they have a deposit function and a loan function. Transactions in these two lines of business mean that there is cash collateral for the liabilities in the deposit activity and a loan portfolio is covered by the grant or expanding of loans. For these reasons, the management of liquidity ratio is fundamental. Scholarly investigations on the impact of liquidity, as quantified by the loan to deposit ratio (LDR), on financial performance have been extensively carried out within the banking industry. The results of this evaluation generally suggest that LDR have the potential to enhance the financial performance of banks (Limajatini et al, 2019; Liyana & Indrayani, 2020; Sukmadewi, 2020; Anggar & Dana, 2020; Saleh & Winarso, 2021, Rajindra et al., 2021; Nugraha et al.,2021; Darmawan et al., 2023; Jirwanto, 2024; Maulani et al., 2024; Okeke, 2024). Nevertheless, whereas this subject has been extensively examined in the banking sector, there is a scarcity of comparable research in the realm of cooperatives business. Research conducted on cooperative businesses shows that LDR has an effect on ROA (Beni et al.,2023), in addition to that research conducted by (Sari & Septiano, 2023) shows that business volume has an effect on BRR

Research examining the effect of liquidity and business volume on bank performance has been widely conducted, but in the context of LSCs there are still few. The purpose of this paper is to investigate the effect of liquidity and business volume on cooperatives performance.

2. Literature Review

Liquidity

Liquidity refers to the capacity of corporations to fulfil their immediate financial commitments (Akenga, 2017; Almakura et al., 2024). Liquidity is necessary in the cooperative context to assess the cooperative's capacity to fulfill its immediate responsibilities. According to Bagana et al. (2024), liquidity demonstrates that a company has cash on hand as well as other assets that can be quickly turned into cash. Liquidity further demonstrates the organization's ability to use these assets for ongoing operations. Mahmud and Rahman (2020) state that if a cooperative has strong liquidity, then the cooperative can meet the funding needs of its members and is able to manage financial risks well.

Performance

LSCs is a financial institution structured as a non-bank entity, engaged in the acceptance of deposits and the provision of loans to its members (Arifin et al., 2020; Fahriani & Zubaidah, 2023). As part of their operations, savings and loan cooperatives oversee the management of funds obtained from the primary savings of cooperative members, as well as mandatory and voluntary savings. Furthermore, LSCs also get financial resources from the reserve fund scheme derived from the residual business results (RBR), loan capital provided by cooperative administrators, and grants. RBR is not the reason cooperatives exist, although they do need to be financially healthy in order to be effective and provide needed services. Cooperatives are unique, as are their reasons for existence, and the manner in which they relate to member-owners. As member-owned businesses, cooperatives provide a broad array of services, products and benefits, and the way this is done is the primary difference from other types of businesses. The benchmark for evaluating cooperative performance is RBR, which is the residual amount of funding allocated by the cooperative based on the business outcomes achieved over a specific timeframe. By having knowledge on the acquisition of RBR in a specific year, cooperative administrators can ascertain the financial performance of their cooperative.

Business Volume

The volume of cooperative business refers to the total value of products and services acquired during the period from January initiation of the financial year to December conclusion of the same year (Aminudin & Chandraningtyas, 2022). Fundamentally, the economic activity of cooperatives may be observed by examining the magnitude of the cooperative's business volume. To quantify the scale of cooperative business, one can examine the monthly sales figures or the number of loans successfully executed. Business volume in LSC is the amount of loans distributed, for instance, the LSC issues a loan of Rp. 100,000,000 per month, indicating that the cooperative's business volume amounts to Rp. 100,000,000.

Hypothesis Development

The effect of liquidity on cooperative performance

LDR, or Loan-to-Deposit Ratio, is a metric used to evaluate cooperative liquidity (Budianto & Dewi, 2023; Anantadjaya et al., 2023). Achieving an optimal LDR can enhance loan interest revenue and demonstrate effectiveness in fund allocation. Therefore, this ratio is frequently employed as an indicator to evaluate the financial well-being of cooperatives in conducting diverse commercial operations. This metric indicates the bank's proficiency in both customer retention and acquisition. An excellent LDR demonstrates the cooperative's capacity to enhance revenue and foster member confidence, therefore optimising cooperative performance. Previous research shows that liquidity has an effect on performance (Limajatini et al, 2019; Liyana & Indrayani, 2020; Saleh & Winarso, 2021; Darmawan et al., 2023; Okeke, 2024).

H1: Liquidity affects cooperative performance

The effect of business volume on cooperative performance

Indicative of the amount of economic activity and the extent of cooperative operations, the volume of cooperative business has a substantial impact on BRR. Increased business volume leads to a higher frequency of transactions and economic activity inside the cooperative, therefore maximising the potential to produce more income. By having a substantial amount of business, cooperatives are able to expand their credit offerings and provide a wider range of services. These factors collectively lead to higher revenue and, ultimately, a higher level of BRR. LSCs with large business volumes usually have more resources and diversification of financial products, so they can be more flexible in adjusting strategies to maximize interest income (Liang et al, 2023). This can increase RBR more significantly compared to cooperatives with smaller business volumes. Existing studies indicate that the amount of business operations directly impacts the performance of cooperative company (Sari & Septiano, 2023).

H2: business volume affects cooperative performance

3. Methodology

The present study is classified as causal quantitative research as it aims to establish a causal relationship between three variables: liquidity, company volume, and cooperative performance. The population of this study is all savings and loan cooperatives in Malang city, which is 88 LSCs in the period 2021 – 2023. The sample used is only 61 cooperatives because the LSCs provides complete data related to the variables studied. Research data was obtained from the Department of Cooperatives, Industry and Trade of Malang City. The operational definition and measurement of each variable are as follows:

- a. Cooperative liquidity refers to the capacity of a cooperative to fulfill its immediate financial commitments. The LDR is expressed as the ratio of loans in the numerator, over the deposits in the denominator.
- b. Cooperative performance refers to the net profit achieved by a certain cooperative. Within the framework of cooperatives, performance is subtracted from the residual business outcomes. RBR, as defined by Law No. 25 of 1992, refer to the money earned by a Cooperative in a specific fiscal year, after deducting expenses, depreciation, and other liabilities such as taxes for that fiscal year.
- c. Business Volume in LSC refers to the allocation of loans and financed activities during a specific time frame.

4. Results and Discussions

Results

Descriptive Statistics

The original sample size for this study consisted of 61 LSCs. Within the data processing procedure, three LSCs were identified as outliers due to their z values above +/- 2.5. Specifically, the ZLDR value was 6.48, the Z performance value was 7.18, and the Z business volume value was 6.67. Three LSCs were excluded from further investigation, resulting in a residual sample of 58 LSCs.

Tabel 2. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
LDR	58	-1399.00	3060.00	531.2414	864.19745
BUS_VOL	58	20000000.00	51821418884.00	3340836061.9828	8237833978.02712
PERFORMANCE	58	-122450513.00	939219662.00	90583208.8966	215392827.63681
Valid N (listwise)	58				

According to Table 2, the liquidity (LDR) variable in the sample ranges from a minimum value of -1399.00 to a maximum value of 3060.00. The average value is 531.2414 and the standard deviation is 864.19745, suggesting a significant extent of variance across the observations. The BUS_VOL (Business Volume) variable exhibits a broad spectrum, ranging from 20 million to over 51.8 billion. Its average value is 3.34 billion, with a notably high standard deviation of 8.24 billion. This distribution reflects the significant variations in business volume across the companies under analysis. Furthermore, the performance variable exhibits substantial variability, ranging from a minimum performance value of -122.45 million to a maximum of 939.22 million. The average performance value is 90.58 million, with a standard deviation of 215.39 million. This suggests the presence of entities with very different performance levels, including those that have incurred substantial losses.

Hypothesis testing

Tabel 3. Regression Results

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	19684764.85	23974188.47		.821	.415
	LDR	13701.695	22870.174	.055	.599	.552
	BUS_VOL	.019	.002	.728	7.937	.000

a. Dependent Variable: PERFORMANCE

Hypothesis 1

Hypothesis 1 posits that the performance of cooperatives is influenced by liquidity. Table 3 displays a significance value of 0.551. The significance level is over 0.05, indicating that liquidity has no impact on cooperative performance. Therefore, hypothesis H1 is rejected.

Hypothesis 2

Hypothesis 1 states that business volume affects cooperative performance. Table 3 shows a sig value of 0.000. The sig value is lower than 0.05, which means that business volume affect cooperative performance. Thus, H2 is accepted.

Discussion

The effect of liquidity on cooperative performance

The findings of this study indicate that liquidity (LDR) does not affect cooperative performance. Loan to liquid might not affect the cooperative performance if the cooperative fails to manage its lending practices effectively. For example, even if the LDR is high, indicating that a large portion of deposits is being lent out, the cooperative may not see an increase in SHU if those loans are not repaid on time, leading to a high rate of non-performing loans (NPL). Additionally, if the interest rates on loans are too low or if the cooperative incurs high costs in managing these loans, the potential revenue from interest might not be enough to cover operational expenses, thus nullifying the impact of LDR on BRR. Ineffective risk management, poor credit assessment, and high default rates can all contribute to a situation where LDR does not translate into a higher BRR. This result corroborates prior results that LDR does not impact performance (Pradnyawati & Widhiastuti, 2020; Putri, 2022). Nevertheless, this study fails to corroborate prior conclusions that LDR has significant impact on performance (Limajatini et al, 2019; Sukmadewi, 2020; Anggar & Dana, 2020; Saleh & Winarso, 2021; Darmawan et al., 2023; Jirwanto, 2024).

The effect of business volume on cooperative performance

The results of this study suggest that the business volume influences the performance of cooperatives. LSC with large business volumes also have the capacity to reduce operational costs per transaction through economies of scale, which means that the cooperative can operate more efficiently. This efficiency allows the cooperative to maximize revenue and minimize costs, which contributes to increasing BRR. In contrast, cooperatives with small business volumes may face challenges in increasing BRR due to limitations in the amount of loans that can be provided and high operational costs per transaction. Thus, a large business volume is very important in increasing BRR in LSCs. These results align with the findings of Sari & Septiano (2023) that the level of business activity directly impacts BRR.

5. Conclusion

The present investigation yielded two primary results. Primarily, liquidity has no impact on cooperative performance. Secondly, the operation volume of a firm impacts cooperative performance. The present

investigation is subject to many constraints. This study only investigates two factors that impact cooperative performance, specifically liquidity and business volume. More precisely, this study exclusively examines savings and lending cooperatives inside the city of Malang. Additional variables, such as Interest Rate Risk, can be included in further study. Moreover, further investigation can explore several categories of cooperatives, such as Producer Cooperatives, Consumer Cooperatives, and service cooperatives, across diverse geographic regions. The results of this study have practical consequences. LSCs should prioritise operations that will enhance business volume, such as expanding marketing efforts to entice members to join the cooperative, thereby consequently improving cooperative performance. Concurrently, the government, in its role as a policy maker, should contemplate amending rules that prioritize the management of liquidity.

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