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INSTITUTIONALIZING RURAL COOPERATIVES: THE ROLE OF KOPERASI DESA MERAH PUTIH (KDMP) IN STRENGTHENING SMEs AND MARKET COMPETITION

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Abstract

This study examines the role of *Koperasi Desa Merah Putih* (KDMP) as an institutional instrument for strengthening micro, small, and medium enterprises (SMEs) in rural areas, while simultaneously assessing its implications for market competition. Grounded in the frameworks of cooperative theory, institutional economics, and the Structure–Conduct–Performance (SCP) paradigm, this research explores the dual function of KDMP as both an empowerment mechanism and a potential market actor. A quantitative approach was employed using survey data collected from 100 SMEs and existing cooperatives in Central Java, Indonesia. Logistic regression models were applied to analyze three key dimensions: partnership preference, perceived competition intensity, and SME ecosystem development. The findings reveal that partnership decisions are positively influenced by business capacity but negatively associated with firm competitiveness, indicating that KDMP primarily attracts moderately capable yet less competitive enterprises. Furthermore, perceptions of increased competition are significantly driven by innovation orientation and business constraints, suggesting that KDMP stimulates dynamic rather than purely structural competition. In terms of ecosystem development, enabling and inhibiting factors play a more critical role than formal institutional variables, highlighting KDMP's function in addressing structural market barriers. The study concludes that KDMP operates as both a market-correcting institution and a development accelerator, particularly in contexts characterized by institutional voids. However, its effectiveness depends on governance quality and policy design to avoid unintended market distortions. This research contributes to the literature on cooperative-based development and provides policy insights for balancing SME empowerment with fair competition in emerging economies.

Keywords: Rural cooperatives, SMEs, KDMP, market competition, institutional economics.

INTRODUCTION

Achieving inclusive and equitable economic growth remains a primary challenge for developing economies, particularly in rural sectors where structural constraints such as credit rationing, weak institutional capacity, and fragmented market linkages stifle the development of micro, small, and medium enterprises (MSMEs) (Beck et al., 2005; World Bank, 2020). Although MSMEs are pivotal to local employment, their competitiveness is frequently undermined by information asymmetry, limited bargaining power, and market imperfections (Ayyagari et al., 2011; Tambunan, 2019). Consequently, cooperative institutions have emerged as critical mechanisms for

mitigating these barriers through collective action and enhanced resource mobilization (Birchall, 2013; Cook & Grashuis, 2018).

In Indonesia, the establishment of Koperasi Desa Merah Putih (KDMP) represents a strategic policy intervention designed to strengthen rural economic institutions. As a village-based model, KDMP is envisioned not only as an empowerment vehicle but also as a formal institutional mechanism to facilitate inclusive market participation. This aligns with global evidence where cooperatives act as vital intermediaries connecting smallholders to finance, technology, and global value chains (Wanyama et al., 2009; Birchall & Ketilson, 2009). The development of KDMP is underpinned by a comprehensive regulatory framework, ranging from Law No. 25/1992 on Cooperatives to the recent Presidential Instructions No. 9/2025 and No. 17/2025. These latest mandates seek to accelerate the establishment of 80,000 village cooperatives nationwide, reflecting a state-led institutional approach to overcoming coordination failures (Rodrik, 2004; Stiglitz, 1998). Empirically, the program has seen rapid scaling; by mid-2025, over 83,000 units were registered. However, in Central Java, while 8,500 units have been formed, only a small fraction is fully operational. This discrepancy highlights critical deficits in governance quality and managerial readiness (Chaddad & Cook, 2004; Valentinov, 2007).

Previous studies indicate that weak governance structures and limited managerial capabilities often constrain the effectiveness of cooperatives in achieving their economic and social objectives (Ortmann & King, 2007). Beyond its direct economic contributions, KDMP is expected to strengthen rural economic structures by facilitating collective business networks, improving market access, and integrating local products into broader value chains. Theoretically, this aligns with value chain development literature, which emphasizes the importance of collective institutions in enhancing coordination, reducing transaction costs, and increasing value-added for small producers (Kaplinsky & Morris, 2001). However, the rapid expansion of KDMP also raises important concerns regarding market dynamics and competition. In particular, administrative policies that condition access to public resources such as village funds on the establishment of cooperatives may introduce distortions, create entry barriers, and potentially crowd out existing enterprises.

From a theoretical standpoint, this study draws upon the Structure–Conduct–Performance (SCP) paradigm, which emphasizes the relationship between market structure, firm behavior, and market outcomes. According to this framework, highly concentrated market structures or preferential policy treatments may create barriers to entry, reduce competitive pressure, and ultimately lead to inefficiencies (Bain, 1951; Scherer & Ross, 1990). In the context of cooperative expansion, several studies suggest that while cooperatives can enhance competition by empowering small producers, they may also generate anti-competitive effects if supported by distortive policies or exclusive privileges (Sexton & Iskow, 1993; Fulton & Hueth, 2009).

In addition, this study is grounded in the theory of inclusive institutions proposed by Acemoglu and Robinson (2012), which posits that sustainable economic growth depends on institutional arrangements that promote broad participation, protect property rights, and ensure fair competition. Cooperatives, as member-owned and democratically governed organizations, inherently align with the principles of inclusive institutions (Cook & Grashuis, 2018). However, their effectiveness is highly contingent upon governance quality, regulatory design, and the broader institutional environment. Empirical evidence suggests that inclusive institutional frameworks significantly enhance cooperative performance, innovation capacity, and SME development outcomes (North, 1990; Gutiérrez-Arango et al., 2023).

Furthermore, the interaction between formal and informal institutions plays a crucial role in shaping cooperative effectiveness. While formal regulations provide legal certainty and structure, informal norms such as trust and social capital enhance cooperation and reduce transaction costs (Ostrom, 1990; Putnam, 1993). In rural contexts, where formal institutional capacity may be limited, the success of cooperatives often depends on the strength of these social and community-based mechanisms (Woolcock & Narayan, 2000).

The dual role of KDMP as both an instrument of SME empowerment and a potential actor within competitive market screates a critical research gap. While cooperatives are widely recognized as mechanisms for correcting market failures and improving bargaining power, their rapid and policydriven expansion may also lead to unintended consequences if not supported by sound institutional design and competition safeguards. This tension between empowerment and competition remains underexplored in the context of largescale, stateled cooperative programs.

Therefore, this study aims to: (1) Examine the role of KDMP in strengthening SME capacity and competitiveness in rural areas; (2) Analyze the impact of KDMP on market structure and business competition; and (3) Formulate policy recommendations to ensure alignment between SME empowerment and fair competition principles.

By focusing on Central Java as a case study, this research contributes to the literature on cooperativebased development, institutional economics, and competition policy, while providing policyrelevant insights into balancing stateled institutional innovation with market competition dynamics.

LITERATURE REVIEW AND HYPOTHESIS FORMULATION

2.1 Cooperative Theory and Institutional Perspectives

Cooperatives are distinct socioeconomic entities characterized by collective ownership, democratic governance, and participatory decision-making (International Cooperative Alliance, 1995). Unlike investor-owned firms (IOFs), cooperatives adhere to the principles of user-ownership, user-control, and user-benefit. This unique organizational structure is strategically positioned to mitigate market failures and bolster the bargaining power of small-scale producers (Cook & Grashuis, 2018).

Economic theory posits that cooperatives emerge as institutional responses to market imperfections, facilitating efficient access to inputs, credit, and downstream markets (Nourse, 1945; Emelianoff, 1942). Central to their performance is the concept of collective action, where active member engagement ensures the equitable distribution of economic rents and organizational sustainability. In addition, the social capital theory underscores the importance of trust, norms, and networks in enhancing cooperative effectiveness. Strong social capital fosters cooperation, reduces transaction costs, and strengthens organizational resilience (GarcíaPérez et al., 2023; Zhang et al., 2023). Thus, cooperatives function not only as economic entities but also as social institutions embedded within community structures.

The institutional perspective, particularly the framework developed by Acemoglu and Robinson (2012), provides a broader lens for understanding cooperative development. Their distinction between inclusive institutions and extractive institutions is central to explaining variations in economic performance across countries. Inclusive institutions promote participation, innovation, and fair competition, while extractive institutions concentrate power and limit economic opportunities.

In the context of cooperatives, inclusive institutions create an enabling environment by ensuring property rights, transparent governance, and access to financial resources. Empirical studies show that strong institutional frameworks enhance cooperative credibility, facilitate access to credit, and promote innovation (GutiérrezArango et al., 2023; Matera, 2022). Conversely, weak or extractive institutions may lead to governance failures, elite capture, and reduced member participation (García, 2024). Importantly, institutional effectiveness depends on the interaction between formal institutions (laws, regulations, governance systems) and informal institutions (norms, trust, and social networks). While formal rules provide legal certainty, informal mechanisms enhance flexibility and trust. A balanced integration of both is essential for cooperative sustainability (Guidi et al., 2019; Ridloah et al., 2024).

The concept of the “narrow corridor” (Acemoglu & Robinson, 2019) further explains the dynamic balance between state authority and societal participation. In this framework,

cooperatives can act as intermediary institutions that strengthen civic engagement while maintaining economic freedom. This makes them particularly relevant for rural development, where state capacity and market mechanisms often need to be carefully balanced.

2.2 The Role of Cooperatives in Developing Economies

In developing countries, cooperatives play a critical role in promoting financial inclusion, market access, and rural development. By providing affordable financial services, cooperatives enable households and SMEs to accumulate capital and invest in productive activities (Maulana & Nuryakin, 2021). Empirical evidence suggests that cooperatives enhance access to formal credit and reduce reliance on informal lending, thereby improving economic stability and productivity (Ridloah et al., 2024). Moreover, cooperatives facilitate aggregation of products, enabling small producers to achieve economies of scale and strengthen their market position (Golovina et al., 2020). Cooperatives also contribute to inclusive growth by redistributing income and reducing regional disparities. Through collective action and equitable benefitsharing mechanisms, they support marginalized groups and enhance local economic resilience (Kolade et al., 2019). However, cooperatives in developing countries often face significant challenges, including weak governance, regulatory inconsistencies, and limited managerial capacity. These constraints highlight the importance of institutional support, policy coherence, and capacitybuilding initiatives to ensure their effectiveness.

2.3 Cooperatives and SME Empowerment

Cooperatives serve as strategic instruments for SME development by facilitating access to finance, markets, and technology. Studies show that cooperativebased financing mechanisms significantly improve SME productivity and growth (Moura et al., 2019; Makanyeza et al., 2022). In addition, cooperatives promote innovation through collaboration with research institutions and industry networks. This enables SMEs to adopt new technologies, improve product quality, and compete in broader markets (Vecchiato & Roveda, 2014). From a distributional perspective, cooperatives contribute to income equality by strengthening bargaining power and ensuring fair profitsharing among members (Lajqi & Krasniqi, 2017). This aligns with the broader objective of inclusive economic development. Nevertheless, achieving these outcomes requires strong governance, transparency, and alignment with market principles. Without these elements, cooperatives may become inefficient or even distort competition.

2.4 Comparative Perspectives: Lessons from Advanced Economies and China

International experiences demonstrate diverse models of cooperative development. In advanced economies, cooperatives are typically bottomup initiatives driven by community participation and supported by strong institutional frameworks. Examples include agricultural cooperatives in Denmark, financial cooperatives in Germany, and integrated cooperative systems such as Mondragon in Spain (Gray, 2018). These models emphasize democratic governance, professional management, and integration into global value chains. They highlight the importance of innovation, digitalization, and strong member participation in achieving longterm sustainability. In contrast, the Chinese model represents a topdown approach, where cooperatives are integrated into stateled development strategies. Government support in the form of financing, infrastructure, and market access has enabled rapid expansion and increased productivity in rural areas (Shastitko, 2019). Both models offer valuable lessons. Bottomup approaches ensure legitimacy and participation, while topdown strategies provide scale and resource mobilization. A hybrid model that combines these strengths may be most suitable for Indonesia, particularly in the context of KDMP.

2.5 Cooperatives and Market Competition

The relationship between cooperatives and market competition is complex. On one hand, cooperatives enhance competition by reducing market concentration and empowering small producers. On the other hand, preferential policies or excessive state intervention may distort market dynamics. According to the SCP framework, market structure influences firm behavior and performance outcomes. If cooperatives receive disproportionate advantages, they may create entry barriers or crowd out existing enterprises (Scherer & Ross, 1990). Therefore, policy design must ensure a level playing field that promotes both inclusivity and efficiency. In this context, KDMP represents a unique case where stateled cooperative expansion intersects with competitive market structures. Evaluating its impact requires a careful analysis of both institutional design and market dynamics.

Model 1: Partnership Preference with KDMP

The decision of SMEs and existing cooperatives to engage in partnerships is strongly influenced by perceived economic benefits, particularly in terms of capacity enhancement, competitiveness, and market conditions. From the perspective of cooperative theory and resourcebased views, partnerships enable firms to access complementary resources, improve operational efficiency, and enhance market positioning (Barney, 1991; Gulati, 1998).

a. Business Capacity and Partnership Preference

Previous studies highlight that increased business capacity—such as access to capital, skills, and production capabilities—significantly influences firms' willingness to collaborate with institutional actors (Wanyama et al., 2009; Birchall, 2013). Cooperatives, in particular, play a crucial role in strengthening productive capacity by pooling resources and facilitating economies of scale (Cook & Grashuis, 2018).

H1: The higher the perceived ability of KDMP to enhance business capacity, the higher the probability that SMEs and existing cooperatives will choose to partner with KDMP.

b. Competitiveness and Partnership Preference

Competitiveness is a key determinant of firm behavior in market participation. Empirical evidence suggests that firms are more likely to engage in partnerships when such collaborations improve efficiency, reduce costs, and enhance market competitiveness (Porter, 2008; Lajqi & Krasniqi, 2017). Cooperative institutions often strengthen competitiveness by reducing transaction costs and improving bargaining power (Valentinov, 2007).

H2: The higher the perceived impact of KDMP on improving business competitiveness, the higher the probability that SMEs and existing cooperatives will choose to partner with KDMP.

c. Competitive Climate and Partnership Preference

A conducive competitive environment encourages collaboration and innovation. Studies in industrial organization suggest that fair competition fosters efficiency and strategic alliances among firms (Scherer & Ross, 1990; Porter, 2008). In cooperative settings, a healthy competitive climate enhances trust and participation among members (Fulton & Hueth, 2009).

H3: The higher the perceived contribution of KDMP to a healthy competitive climate, the higher the probability that SMEs and existing cooperatives will choose to partner with KDMP.

Model 2: Perception of Increased Competition Intensity

The presence of new institutional actors, such as KDMP, can influence market competition dynamics. According to the SCP framework, changes in market structure affect firm conduct and performance, including innovation and competitive intensity (Bain, 1951; Scherer & Ross, 1990).

a. Competitive Climate and Competition Intensity

A wellfunctioning competitive environment is associated with increased competitive intensity, which encourages efficiency and innovation (Nickell, 1996). Empirical studies show that improved competition stimulates firm productivity and market discipline.

H4: The higher the perceived improvement in the competitive climate due to KDMP, the higher the probability of increased healthy competition intensity.

b. Business Performance and Competition Intensity

Firm performance is closely linked to competitive behavior. Higherperforming firms tend to engage more actively in competition, driving innovation and efficiency (Aghion et al., 2005). In cooperative contexts, improved performance can enhance members' ability to compete effectively in the market (Chaddad & Cook, 2004).

H5: The higher the perceived improvement in business performance due to KDMP, the higher the probability of increased healthy competition intensity.

c. Innovation Effort and Competition Intensity

Innovation is a critical response to competitive pressure. Literature suggests that increased competition stimulates firms to invest in innovation and business development efforts (Aghion et al., 2005; Porter, 2008). Cooperative networks often facilitate innovation through knowledge sharing and collective learning (Moura et al., 2019).

H6: The higher the perceived increase in business development and innovation efforts due to KDMP, the higher the probability of increased healthy competition intensity.

Model 3: SME Ecosystem Development

The effectiveness of cooperatives in supporting SME ecosystems depends on institutional quality, enabling factors, and constraints. Institutional economics emphasizes that strong institutions are essential for fostering economic development and reducing market inefficiencies (North, 1990; Acemoglu & Robinson, 2012).

a. Institutional Factors and SME Ecosystem

Strong institutional frameworks enhance trust, reduce uncertainty, and facilitate economic coordination (North, 1990). Empirical evidence indicates that inclusive institutions significantly improve SME development outcomes and cooperative performance (GutiérrezArango et al., 2023).

H7: The higher the perceived improvement in institutional factors due to KDMP, the higher the probability of strengthening the SME economic ecosystem.

b. Driving Factors and SME Ecosystem

Enabling factors such as access to finance, markets, and technology are critical for SME growth. Studies show that supportive ecosystems significantly enhance SME productivity and sustainability (Beck et al., 2005; World Bank, 2020).

H8: The higher the perceived improvement in enabling factors due to KDMP, the higher the probability of strengthening the SME economic ecosystem.

c. Inhibiting Factors and SME Ecosystem

Conversely, structural constraints—such as regulatory barriers, limited access to resources, and institutional inefficiencies—can hinder SME development (Tambunan, 2019). The presence of such constraints is expected to negatively affect ecosystem performance.

H9: The higher the perceived increase in inhibiting factors due to KDMP, the higher the probability of weakening the SME economic ecosystem.

RESEARCH METHODS

3.1 Research Design

This study adopts a quantitative surveybased research design to examine the perceptions of existing cooperatives and micro, small, and medium enterprises (SMEs) regarding the presence of *Koperasi Desa Merah Putih* (KDMP). The primary objective is to assess whether the establishment of KDMP contributes to SME empowerment while maintaining fair business competition. The survey approach is particularly appropriate for capturing perceptions, attitudes, and behavioral intentions of economic actors within rural markets (Creswell, 2014). In this study, two key respondent groups are analyzed: (1) managers of existing cooperatives, and (2) SME actors. From the perspective of existing cooperatives, the survey aims to identify potential concerns related to overlapping institutional roles, competition for members, and possible market dominance by newly established cooperatives. From the SME perspective, the survey explores whether KDMP is perceived as a strategic partner that enhances business development or as a competitor that may create adverse market conditions.

3.2 Sampling and Data Collection

To obtain a representative understanding of the research problem, this study employs a sample of 100 business units, consisting of SMEs and existing cooperatives. This sample size is considered sufficient to capture variation in perceptions and experiences, while ensuring statistical reliability for econometric analysis (Hair et al., 2014).The sampling technique follows a proportional sampling approach, where SMEs are selected based on their business characteristics and their relationship with cooperatives. To ensure balance and avoid bias, the SME sample is equally divided between:

- SMEs affiliated with cooperatives, and
- SMEs operating independently (nonmembers of cooperatives).

Data collection is conducted through an online questionnaire survey, which allows for broader geographic coverage, cost efficiency, and faster data acquisition while maintaining data quality. The questionnaire is designed using structured questions with Likertscale measurements to capture respondents' perceptions of KDMP's impact on business capacity, competitiveness, market conditions, and economic ecosystems.

3.3 Variables and Measurement

This study employs three primary dependent variables and a set of independent variables derived from the theoretical framework. The definitions and operationalizations are as follows:

Dependent Variables

1. **Partnership Preference (Model 1)**: A binary variable capturing the willingness of MSMEs or existing cooperatives to collaborate with KDMP (1 = willing to partner; 0 = otherwise).
2. **Competition Intensity Perception (Model 2)** A binary variable assessing whether respondents perceive the presence of KDMP as a driver of healthy market competition (1 = increases healthy competition; 0 = decreases/distorts competition).
3. **SME Ecosystem Support (Model 3)** A binary variable indicating whether KDMP is perceived to strengthen the broader MSME economic ecosystem (1 = strengthens; 0 = weakens).

Independent Variables

- **Business Capacity**: Perceived improvement in production, financial, and managerial capacity
- **Competitiveness**: Perceived efficiency, cost reduction, and market competitiveness
- **Competitive Climate**: Perception of fairness and openness in market competition
- **Business Performance**: Firmlevel outcomes such as revenue growth and productivity
- **Innovation and Development Effort**: Investment in innovation, technology adoption, and business expansion
- **Institutional Factors**: Governance quality, regulatory support, and institutional effectiveness

- **Enabling Factors**: Access to finance, markets, and infrastructure
- **Inhibiting Factors**: Constraints such as regulation, capital limitations, and market barriers

Control variables include business performance indicators to account for firm heterogeneity.

3.4 Econometric Model Specification

Given the binary nature of the dependent variables, this study employs Logistic Regression (Logit Model). The logit model is preferred for its ability to estimate the probability of an outcome occurring based on a set of explanatory variables while ensuring the predicted probabilities remain within the interval (Gujarati & Porter, 2009; Wooldridge, 2010). The general form of the logistic regression model is:

$$\ln\left(\frac{P_i}{1-P_i}\right) = \beta_0 + \sum_{j=1}^{n} \beta_j X_{ij} + \epsilon_i \quad \text{..... (1)}$$

where:

- P_i= probability of the event occurring
- β_0= intercept
- β_j= coefficients of independent variables
- X_{ij}= explanatory variables
- ε= error term

The logit model assumes a nonlinear relationship between independent variables and probability, but a linear relationship with the log-odds.

3.5 Model Estimation

The empirical analysis is conducted through three distinct models to capture different dimensions of the KDMP effect:

Model 1: Partnership Preference with KDMP

This model examines the probability that SMEs and existing cooperatives choose to partner with KDMP:

$$Partnership = \beta_0 + \beta_1 Cap_i + \beta_2 Comp_i + \beta_3 Clim_i + \beta_4 Perf_i + \epsilon_1 \quad \text{..... (2)}$$

Where:
Cap = Business Capacity
Comp = Competitiveness
Clim = Competitive Climate
Perf = Business Performance

Model 2: Perceived Competition Intensity

This model evaluates whether KDMP is perceived to increase healthy competition:

$$Competition\ Intensity = \beta_0 + \beta_1 Clim_i + \beta_2 Perf_i + \beta_3 Innov_i + \epsilon_2 \quad \text{..... (3)}$$

Where:
Clim = Competitive Climate
Perf = Business Performance
Inno = Innovation Effort

Model 3: SME Ecosystem Support

This model assesses whether KDMP supports the SME economic ecosystem:

$$Ecosystem\ Support = \beta_0 + \beta_1 Inst_i + \beta_2 Enab_i + \beta_3 Inhib_i + \beta_4 Perf_i + \epsilon_3 \text{ ..... (4)}$$

Where:
Inst = Institutional Factors
Enab = Enabling Factors
Inhib = Inhibiting Factors
Perf = Business Performance

RESULTS AND DISCUSSION

4.1 Quantitative Analysis: SME and Cooperative Perceptions of KDMP in Central Java

This section presents the empirical findings derived from the logistic regression models, aimed at analyzing the perceptions of SMEs and existing cooperatives regarding the presence of *Koperasi Desa Merah Putih* (KDMP). The analysis focuses on three key dimensions: (1) partnership preference, (2) competition intensity, and (3) SME ecosystem development.

4.2 Model 1: Partnership Preference with KDMP

The estimation results of Model 1 indicate that the decision of SMEs and existing cooperatives to engage in partnerships with KDMP is primarily driven by internal firm characteristics, particularly business capacity and business competitiveness.

Table 8. Regression Output of the Model 1 (Partnership Preference)

Partnership	**Odds Ratio**	**95% Conf. Interval**
Business Capacity	1.949**	1.079-3.523
	(0.589)	
Business competitiveness	0.397**	0.180-0.874
	(0.160)	
Business climate	1.718	0.818-3.611
	(0.651)	
Performance	1.685*	0.908-3.128
	(0.532)	
Competition	0.817	0.320-2.087
	(0.391)	
Motivation and expectations	1.301	0.543-3.115
	(0.580)	
Constant	0.126*	0.012-1.379
	(0.154)	
N	**227**	**277**

*Standard errors are in parentheses; the (*) indicates *** p<0.01, ** p<0.05, * p<0.1*

The following is Model 1 that was built (based on the regression output in Table 8):

$$Odds\ Partnership = 0{,}126 \times 1{,}949^{Capacity} \times 0{,}397^{Business\ Competitiveness} \times 1{,}685^{Performance}$$

The variable business capacity shows a positive and statistically significant effect, with an odds ratio of 1.949 ($p < 0.05$). This implies that an increase in operational and managerial capacity nearly doubles the likelihood of SMEs and cooperatives choosing to partner with KDMP. This finding supports the resourcebased view (RBV), which posits that firms with stronger internal capabilities are more likely to leverage external collaborations effectively (Barney, 1991). In the cooperative context, this also aligns with findings that organizational readiness is a key determinant of successful participation in collective economic institutions (Cook & Grashuis, 2018).

In contrast, business competitiveness exhibits a negative and significant effect, with an odds ratio of 0.397 ($p < 0.05$). This inverse relationship suggests that firms with higher independent competitiveness are less inclined to engage in partnerships with KDMP. This finding can be explained through resource dependence theory, where firms that are less dependent on external support tend to prefer autonomy over collaboration (Pfeffer & Salancik, 1978). Conversely, less competitive firms view KDMP as a strategic mechanism to enhance their market position.
Other variables, including business climate, competition, and motivation and expectations, are not statistically significant. Meanwhile, business performance shows a positive but relatively weaker effect (significant at the 10% level), indicating that betterperforming firms may have a slightly higher propensity to engage in partnerships.

Overall, the results suggest that KDMP primarily attracts midlevel enterprises—those with sufficient internal capacity but still facing competitiveness constraints. This partially supports H1, but contradicts H2, as competitiveness negatively influences partnership decisions. H3 is not supported due to the insignificance of the competitive climate variable.

4.3 Model 2: Perceived Increase in Competition Intensity

The results of Model 2 reveal that perceptions of increased competition intensity due to KDMP are significantly influenced by business constraints and innovation orientation.

Table 9. Regression Output of the Model 2 (Competition Intensity)

Competition Intensity	**Odds Ratio**	**95% Conf. Interval**
Business Climate	1.116	0.496-2.510
	(0.461)	
Performance	1.860	0.596-5.805
	(1.080)	
Business constraints	3.958**	1.277-12.267
	(2.284)	
Innovation Orientation	3.322***	1.465-7.533
	(1.388)	
Constant	2.94e05***	0.000-0.004
	(7.53e05)	
N	**227**	**227**

*Standard errors are in parentheses; the (*) indicates *** p<0.01, ** p<0.05, * p<0.1*

The following is Model 2 that was built (based on the regression output in Table 9):

$$Odds\ Competition\ Intensity = 2{,}94e-05 \times\ 3{,}958^{Business\ constraints}\ \times 3{,}322^{Innovation}$$

The variable difficulty in business development (business constraints) shows the strongest positive effect, with an odds ratio of 3.958 ($p < 0.05$). This indicates that firms experiencing growth constraints are nearly four times more likely to perceive KDMP as increasing healthy competition. This finding is consistent with the concept of problemistic search, where firms seek alternative strategies or alliances when facing performance challenges (Cyert & March, 1963).

Similarly, the variable innovation orientation has a positive and highly significant effect, with an odds ratio of 3.322 ($p < 0.01$). This suggests that innovative firms are more likely to perceive KDMP as a positive driver of competition. This aligns with the Schumpeterian perspective, which emphasizes the role of innovation as a response to competitive pressures (Aghion et al., 2005).
In contrast, business climate and business performance do not exhibit statistically significant effects. This implies that perceptions of KDMP's impact on competition are not primarily shaped by macrolevel conditions or current firm performance, but rather by internal strategic orientation and growth challenges. These findings support H6, as innovation significantly increases perceived

competition intensity. However, H4 and H5 are not supported, given the insignificance of competitive climate and performance variables.

Overall, KDMP is perceived as a procompetitive institutional innovation, particularly among firms that are either struggling to grow or actively pursuing innovation. This highlights its potential role in stimulating dynamic competition rather than merely increasing market rivalry.

4.4 Model 3: SME Ecosystem Support

The results of Model 3 demonstrate that perceptions of KDMP's contribution to the SME ecosystem are strongly influenced by enabling and inhibiting factors, rather than institutional or performancerelated variables.

Table 10. Regression Output of the Model 3 (Ecosystem Support)

Ecosystem support	Odds Ratio	95% Conf. Interval
Institutional factors	1.407	0.525-3.768
	(0.707)	
Enabling factors	3.418**	1.123-10.401
	(1.941)	
Inhibiting factors	106.6***	9.316-1220.17
	(132.6)	
Business performance	1.442	0.570-3.645
	(0.682)	
Constant	3.64e10***	0.000-0.000
	(2.07e09)	
N	**227**	**227**

*Standard errors are in parentheses; the (*) indicates *** p<0.01, ** p<0.05, * p<0.1*

The following is Model 3 that was built (based on the regression output in Table 10):

$$Odds\ Ecosystem\ support = 3{,}64e-10 \times\ 3{,}418^{Enabling\ factors}\ \times 106{,}6^{Inhibiting\ factors}$$

The most crucial finding in this model is the significant influence of inhibiting factors, which shows a very high odds ratio of 106.6 ($p < 0.01$). The magnitude of this coefficient indicates that companies facing substantial structural barriers such as regulatory constraints, credit rationing, and market inefficiencies have a very high probability of viewing KDMP as a vital instrument in improving the economic ecosystem. This phenomenon empirically supports the institutional voids theory, in which new institutions emerge to compensate for the absence of effective market-supporting mechanisms (Khanna & Palepu, 2010; Dieleman et al., 2022).

In addition, enabling factors make a significant positive contribution with an odds ratio of 3.418 ($p < 0.05$) implying that growth-oriented companies tend to identify KDMP as a catalyst for ecosystem development. This is consistent with the entrepreneurial ecosystem literature, which emphasizes the importance of a supportive environment in facilitating the scaling up of MSME businesses (Stam, 2015). In contrast, the non-significance of the institutional factors and business performance variables indicates that perceptions of KDMP's ecosystem role are driven neither by formal structures nor by current performance levels, but rather by urgent functional needs within the market system. These findings provide empirical support for hypotheses H8 and H9, but rejected H7. Collectively, KDMP is recognized as having a crucial dual function for inclusive rural economic development: Curative Function: Acting as a corrective mechanism that addresses structural barriers and market failures. Formative Function: Serving as a growth accelerator that strengthens enabling conditions for business actors

CONCLUSION

This study concludes that the Merah Putih Village Cooperative (KDMP) functions as a dual institutional instrument, namely as a market-correcting institution as well as a development accelerator amid rural institutional constraints. The logistic analysis results indicate selective partnership dynamics, in which KDMP tends to attract entities with adequate operational capacity but low competitiveness, confirming its strategic role in empowering specific targets. Furthermore, KDMP's presence does not merely increase structural rivalry, but rather stimulates dynamic competition by encouraging innovation and mitigating growth barriers for business actors. Strong ecosystem support is particularly felt by firms facing market failures and institutional voids, underscoring KDMP's urgency in filling roles that have long been neglected by formal market structures. Theoretically, KDMP's effectiveness supports the inclusive institutions framework, but its sustainability is highly dependent on the quality of governance and precise policy design to minimize competitive distortions and ensure a level playing field for all economic actors in rural areas.

The policy implications of these findings underscore the need for a paradigm shift in rural cooperative development, from mere quantitative expansion toward targeted, qualitative capacity strengthening. Given that KDMP strategically attracts entities with moderate operational capacity yet low competitiveness, government interventions should be prioritized toward managerial and technical skills upgrading programs to strengthen MSMEs' internal readiness before partnership integration is carried out. In addition, regulatory authorities need to evaluate administrative policies that condition access to public resources on cooperative membership to mitigate the risk of entry barriers for non-cooperative business actors and prevent market distortions that can hamper efficiency. Theoretically, this study extends the institutional economics literature by demonstrating that the effectiveness of inclusive institutions such as KDMP depends heavily on their ability to fill institutional voids through curative functions that address structural barriers, as well as formative functions that accelerate innovation ecosystems. A dynamic balance between state authority and community participation within a narrow corridor is a crucial prerequisite so that state-led cooperative expansion remains aligned with the principles of fair business competition and long-term economic sustainability.

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