

THE DYNAMIC RELATIONSHIP BETWEEN EXISTING COOPERATIVES AND MSMEs WITH KDKMP IN CENTRAL JAVA PROVINCE.

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Article Information: Received --- June,25 2026, Published --- August, 10 2026

Abstract

This study investigates the perceptual disparities between established cooperatives and MSME business owners concerning the existence of the Cooperative Village and Subdistrict Merah Putih, or KDKMP. This research aims to analyze the perceptions of both groups and examine the extent to which KDKMP has role in bridging the development of MSMEs at the local level. The study employs a descriptive quantitative methodology utilizing a survey method through a five-point Likert scale questionnaire, examined via descriptive statistics. The research findings suggest that KDKMP is viewed as capable of facilitating access to economic services and financing for MSMEs; nevertheless, it simultaneously generates apprehensions over rivalry among established cooperatives. This research also found that KDKMP has not yet functioned optimally as a link between SMEs and government programs, due to limited institutional capacity, weak mentoring systems, and the lack of an integrated coaching ecosystem. These findings highlight the need to strengthen KDKMP as a local economic service center that can synergize MSMEs, cooperatives, and the government to improve regional economic empowerment.

Keywords: Cooperative, KDKMP, MSMEs

INTRODUCTION

In recent decades, there has been a notable increase in focus on community-based economic institutions within development literature, especially regarding the strengthening of local economies and the advancement of social inclusion. Cooperatives, as a collective economic organization, are defined as enterprises that integrate economic and social objectives through member participation, economic democracy, and a more equitable distribution of benefits. From an organizational standpoint, cooperatives are frequently classified as hybrid entities that amalgamate market principles and social principles (Battilana & Lee, 2014). This feature enables cooperatives to serve not only as units of production or distribution, but also as community-based development instruments focused on member welfare.

Moreover, within the context of social capital, the effectiveness of cooperatives is predominantly influenced by the degree of trust, collective norms, and social networks established among their members (Putnam, 1993; Ostrom, 1990). Strong trust and social cohesion facilitate effective group coordination and diminish transaction costs in economic activities. In this setting, cooperatives serve as both economic entities and social institutions that enhance the collective ability of communities to deal with economic uncertainties.

The integration of cooperatives with Micro, Small, and Medium Enterprises (MSMEs) is becoming an increasingly important topic in the local economy. Beck & Demirgüç-Kunt (2006) and Ayyagari et al. (2011) have emphasized the critical role of micro, small, and medium enterprises (MSMEs) in the development of the economy and the creation of employment. However, they frequently face a variety of structural obstacles, such as inadequate market access, restricted access to financing, and limitations in managerial ability. As a result, cooperatives can function as supportive institutions, providing assistance through financing, marketing, and capacity development

Empirical studies suggest that including MSMEs into cooperative networks might improve business's competitiveness and resilience. For instance, Bijman et al. (2012) have demonstrated that cooperatives can enhance market efficiency and the bargaining power of their members by employing collective mechanisms. Another research, Chaddad and Cook (2004), highlights that modern cooperatives may adapt to market dynamics through institutional innovation and adaptive economic strategies.

Although the potential of cooperatives and MSMEs has been widely discussed in the international literature, the implementation of these institutional models in local contexts still faces various challenges. One of the main issues is how to design a cooperative institutional model that not only functions as a formal organization but is also capable of serving as an economic hub at the village or sub-district level. In the Indonesian context, the Village/Sub-district Cooperative Initiative (KDKMP) represents a strategic effort to integrate various local economic activities into a single community-based institutional framework.

Nonetheless, a disparity persists between the idealized notion of cooperatives and their practical implementation, especially concerning institutional capacity, member participation, and integration within the SME ecosystem. Nonetheless, a disparity persists between the idealized notion of cooperatives and their practical implementation, especially concerning institutional capacity, member engagement, and integration within the SME ecosystem. On the one hand, cooperatives have the capacity to serve as strategic partners for SMEs in order to enhance their efficacy and expand their operations. In contrast, there is a possibility of conflict or competition, particularly in the context of market distribution, access to resources, and institutional roles. Prior research indicates that the success of partnership between cooperatives and commercial players strongly depends on aligned interests, institutional governance, and the economic incentives supplied (Santos et al., 2025).

From the standpoint of inclusive economic growth, the KDKMP's establishment highlights the necessity of collaboration and corporate partnerships as crucial measures, as specified by Articles 26-28 of Law No. 20 of 2008 on MSMEs. Cooperatives, MSMEs, and other business players are expected to form mutually advantageous collaborations in order for improving value chains, expand market access, and narrow competitiveness gaps.

KDKMP is an initiative that aims to economically empower rural areas while also expanding the SME network. Through its intermediary position, the cooperative not only provides access to financing but also stimulates teamwork, extends business networks, and strengthens SMEs' negotiating power in the market. In terms of business competition, the presence of KDKMP serves a dual purpose: on the one hand, it empowers and strengthens SMEs; on the other hand, it must be ensured that it does not lead to practices that could potentially stifle healthy business competition among existing cooperatives or with SMEs.

The KDKMP program has made a lot of progress. Around 83,762 KDKMP had been set up across Indonesia by the middle of 2025, and more than 78,000 of them had become legal entities with the help of the Directorate General of AHU at the Ministry of Law and Human Rights. This program is a government effort to help villages become economically self-sufficient through cooperative institutions. It is also believed as a formal way for local governments to share economic advantages.

In Central Java Province, roughly 8,523 KDKMP have been established in 35 regencies and cities, employing over 68,000 individuals. These cooperatives' business units include the basic foodstuffs sector (13.47%), pharmacies (5.09%), health clinics (3.83%), savings and loans (7.07%), warehousing and logistics (5.75%), and the supply of fertilizers, animal feed, and agricultural inputs (4.24%). However, according to local government data, only roughly 108 cooperatives were functioning as of mid-2025, indicating that the institutional consolidation phase and management capacity improvement continue to require intense support.

While cooperatives are expected to exert a positive impact on society, numerous research suggest that the connection between cooperatives and small businesses is not invariably amicable. Cooperatives can, in some cases, directly compete with small business proprietors, especially when their economic activities intersect (Nilsson, 2001). Consequently, it is essential to investigate the perspectives of current cooperatives and MSME business owners concerning the establishment of the KDKMP and its accompanying policies.

A significant research gap addressed in this study is the limited number of studies that comprehensively examine models of integration between village/subdistrict cooperatives and MSMEs within the framework of community-based local economic development. This study is vital for addressing several fundamental questions: what are the dynamics of the relationship between existing cooperatives and MSMEs with the KDKMP in Central Java Province, and what policies should be implemented to minimize conflict and enhance synergy between these entities in promoting inclusive and sustainable economic development in both rural and urban areas.

LITERATURE REVIEW AND HYPOTHESIS FORMULATION

The Role of Cooperatives in Developing Economies

Cooperatives business can function as instruments for financial inclusion and market accessibility. Cooperatives provide as a channel for more accessible financial services for households and microenterprises, especially in developing nations with fragmented financial markets. According to empirical evidence, savings account ownership and access to financial institutions play a critical role in improving households' ability to accumulate capital and access to formal lending opportunities, which supports the formation and expansion of cooperatives at both the village and regional levels (Maulana and Nuryakin, 2021). Moreover, cooperatives can improve financial inclusion by implementing community-oriented financial service innovations that better address members' needs, thus promoting the replacement of informal credit with more reliable formal financing (Maulana & Nuryakin, 2021; Ridloah et al., 2024). This confirms what the institutional framework has long suspected: that a cooperative's capacity to invest in working capital, production modernization, and higher member productivity is directly correlated to its access to financial resources (Ridloah et al., 2024).

Cooperatives can act as catalysts for inclusive growth via institutional innovation. In the institutional framework of developing nations, cooperatives can serve as catalysts for change, utilizing institutional opportunities to enhance economic participation and democratize market access. Recent studies highlight those inclusive institutional frameworks—such as safeguarding ownership rights, ensuring financial transparency, and promoting internal accountability—sustain trust among members and external stakeholders, thereby improving access to financing, marketing, and technological prospects (Ridloah et al., 2024; Golovina et al., 2020). Cooperatives contribute to the reduction of transaction costs by fostering close relationships between members and management, supporting the idea that formal and informal institutions synergistically enhance production and distribution capabilities for both food and non-food products in the agricultural and SME sectors (Ridloah et al., 2024). These findings substantiate the perspective that cooperatives enhance economic inclusion when bolstered by a stable and accountable institutional framework (Ridloah et al., 2024; Golovina et al., 2020).

Despite their great potential, cooperatives in developing countries face institutional challenges such as difficulties in obtaining permits, inconsistent regulations, and inadequate policy frameworks for the cooperative sector. Recent research has highlighted that a balance between formal institutional structures and flexibility is necessary for cooperatives to operate effectively without losing their community identity. Studies in regional contexts indicate that policy support combining public financing, improved managerial capacity for cooperatives, and democratic oversight mechanisms can enhance cooperative performance and their impact on the local economy (Golvina et al., 2020). Therefore, policy design that is sensitive to local contexts and economic cultures relies on synergy between formal institutional capacity and community support to optimize the role of cooperatives (Golvina et al., 2020).

Policy implications for developing countries include expanding access to formal financial services through cooperative-specific savings and credit facilities, strengthening ownership rights and internal accountability within cooperatives, and facilitating market access through community-based capacity-building programs and technical assistance (Maulana & Nuryakin, 2021; Ridloah et al., 2024). These policies must be followed with a comprehensive evaluation mechanism to assess the impact of cooperatives on regional economic growth, income equality, and long-term food security (Ridloah et al., 2024).

The role of cooperatives in promoting growth, equity, and the empowerment of MSMEs.

Cooperatives can contribute to economic growth and the mobilization of credit for MSMEs. Cooperatives have proven to serve as a mechanism for capital accumulation for households and MSMEs through access to financing, savings, and financial products tailored to the needs of local communities. Various international studies indicate that cooperatives enable micro and small businesses to secure financing at more competitive costs, which ultimately drives productivity and production capacity at both the village and regional levels (Moura et al., 2019; Vecchiato & Roveda, 2014). In the national context, a literature review shows that cooperative-based financing has contributed to increasing access to formal credit for MSMEs previously excluded from the banking sector, thereby accelerating working capital investment and boosting real sector output (Golovina et al., 2020; Makanyeza et al., 2022). These findings are consistent with evidence that financial inclusion through cooperatives expands financing channels for MSMEs. The reason is that cooperatives serve as the primary engine of economic growth in many developing and middle-income countries (Lajqi & Krasniqi, 2017; Rosyadi et al., 2021).

Cooperatives can also contribute through their role as instruments for income redistribution and regional development. Strengthening the organizational capacity of cooperatives improves members' bargaining power within supply chains, access to markets, and opportunities for cross-sectoral collaboration, thereby contributing to a reduction in regional inequality and an increase in village income (Kolade et al., 2019; Govori, 2013). With the support of an inclusive and participatory governance structure, cooperatives can distribute economic benefits to marginalized groups through transparent surplus allocation, skills training, and community-oriented local investment programs (Vecchiato & Roveda, 2014; Lajqi & Krasniqi, 2017). In theory, a balance between the institutional capacity of cooperatives and public policy support creates a synergistic effect between economic growth and equity, in line with the idea of cooperative-based inclusive development (Gërxhani & Breemen, 2018; Kong, 2022).

Cooperatives often serve as platforms for collaboration between MSMEs and academic institutions, research organizations, and other support organizations, thereby facilitating technology transfer, access to market information, and the adoption of modern management practices. Several studies indicate that cooperatives linked to know-how networks foster the innovative capacity of SMEs through R&D collaboration, mutual support for innovation funding, and product quality standardization for both national and international market competition (Moura et al., 2019; Vecchiato & Roveda, 2014). Cooperative networks involving public and private institutions help improve production efficiency, accelerate the digitalization of operational

processes, and expand marketing channels through integrated cooperative platforms (Golovina et al., 2020; Govori, 2013). These findings confirm that cooperatives can serve as a driving force for innovation that strengthens the competitiveness of SMEs in an inclusive manner while maintaining the socio-economic sustainability of the community.

Despite their great potential, cooperatives still face various institutional challenges, such as regulatory hurdles, bureaucracy, and regulatory uncertainty, which can hinder access to financing and limit potential expansion. Literature shows that the balance between formal frameworks (property rights, financing regulations, clear governance) and informal support (community norms, trust, social contract practices) is crucial for the effectiveness of cooperatives in promoting growth and equity (Gërzhani & Breemen, 2018; Kong, 2022). An unbalanced institutional framework—where formality and flexibility are out of sync—can lead to high transaction costs, stifle innovation incentives, or even create opportunities for abuse of power if accountability mechanisms are inadequate (Vecchiato & Roveda, 2014; Rosyadi et al., 2021). Therefore, policy designs responsive to local contexts, with a focus on enhancing ownership rights, transparency, and the managerial capacity of cooperatives, are necessary to maximize its impact on MSMEs and regional economic resilience (Maulana & Nuryakin, 2021; Ridloah et al., 2024).

In terms of policy, the key recommendations include improving access to financing through cooperative-based credit facilities, strengthening internal governance capacity, and providing digital infrastructure supporting financial transparency and market access for MSMEs. Policies that encourage collaboration between cooperatives, educational institutions, and industry actors can also accelerate the transfer of technology and business innovation at the SME level, while maintaining inclusivity and the equitable distribution of economic benefits (Moura et al., 2019; Vecchiato & Roveda, 2014).

Legal Basis for the Establishment and Operation of KDKMP

From a legal standpoint, the existence of KDMP has a strong legal basis within the national regulatory framework, including:

1. Law No. 25 of 1992 on Cooperatives, which defines cooperatives as business entities based on the principle of solidarity and aimed at improving the welfare of their members.
2. Law No. 20 of 2008 on Micro, Small, and Medium Enterprises (MSMEs), which emphasizes the need for partnerships between large, medium, and small business actors to create a balanced and equitable economic structure.
3. Government Regulation No. 7 of 2021 on Facilitation, Protection, and Empowerment of Cooperatives and MSMEs, which encourages synergy between cooperatives and other business sectors.
4. Presidential Instruction (Inpres) No. 9 of 2025 on Accelerating the Establishment of KDKMP; through this Presidential Instruction, it is directed to take comprehensive, coordinated, and integrated steps in accordance with their respective duties and functions to implement strategic policies for the optimization and acceleration of establishment through the establishment, development, and revitalization of 80,000 (eighty thousand) KDKMP.

In addition, the existence of KDMP is also strengthened by several other regulations, as follows:

1. Presidential Instruction No. 17 of 2025 on Accelerating the Establishment of KDKMP, through the accelerated physical establishment of outlets, warehouses, and facilities for Village/Subdistrict Cooperatives (Merah Putih).
2. Presidential Decree (Keppres) No. 9 of 2025 on the Establishment of a Task Force (Satgas) for the Acceleration of the Formation of KDKMP.
3. Joint Ministerial Decree (SKB) of 5 (Five Ministers) and the Head of the Daya Anagata Nusantara Investment Management Agency for the Acceleration of the Construction and Operationalization of KDMP Retail Outlets and Warehouses.
4. Official Letter of the Minister of Cooperatives No. 1 of 2025 on Procedures for the Establishment of KDKMP.

5. Official Letter of the Minister of Cooperatives No. 9 of 2025 on the Task Force for the Establishment of KDKMP.
6. Official Letter of the Minister of Villages and Disadvantaged Regions No. 6 of 2025 regarding Technical Guidelines for Accelerating the Implementation of the Formation of the KDKMP.
7. Official Letter of the Minister of Home Affairs No. 500.3/2438/SJ regarding the Acceleration of the Establishment KDKMP.
8. Official Letter of the Minister of Law No. AHU-AH.02-40 of 2025 regarding the Acceleration of the Approval of the Establishment and Amendments to the Articles of Association of KDKMP.

For certain areas in Central Java Province, the relevant regulations at the provincial level are based on Central Java Governor's Decree No. 500.3/0002538 regarding the Establishment of the KDKMP.

RESEARCH METHODS

Research Design

In this study, surveys play a crucial role in exploring the perceptions of existing cooperative managers and MSME business owners regarding the presence of KDMP, to assure that its presence does not lead to unfair business competition. From the perspective of current cooperative managers, the survey was conducted to identify potential issues related to overlapping roles, competition for membership, or market dominance by the new cooperative (KDKMP). As for MSME business owners, the survey aimed to find out how they view the risks and opportunities associated with the KDKMP—whether it can truly serve as a partner to strengthen their businesses or, on the contrary, become a competing force that causes business losses.

In addition, the survey also aims to identify the structure of the cooperative market in Central Java, including the current distribution of cooperatives, the economic sectors they mostly operate in, and their current market shares. This is accompanied by data on membership, capital contributions, and the utilization of cooperative services by MSMEs. Thus, this study not only assesses the potential of the KDKMP as an instrument for strengthening MSMEs but also provides a comprehensive overview of market conditions and business actor participation, ensuring that the resulting policy recommendations are more targeted, inclusive, and maintain a fair business competitive environment.

Sampling and Data Collection

In order to get a representation of the industry, the survey included 225 existing MSMEs and cooperatives. This number was considered sufficient to capture the diverse range of experiences and expectations that MSMEs and existing cooperatives have regarding the role of the KDMP, while also strengthening the validity of the analysis on the impact of cooperatives on business competition dynamics in Central Java. To ensure the required number of respondents was met, the survey was conducted via online questionnaires. This approach is expected to broaden the respondent pool, save time, reduce costs, and maintain the data quality required for analysis and the formulation of policy recommendations. The MSME sample was selected proportionally based on the types and sizes of existing cooperatives as well as KDMPs. To keep the sample balanced, MSMEs were divided equally between those that are members of cooperatives and those that are not.

Variables and Measurement

This study identifies several variables that are considered to demonstrate dynamic relationships between existing cooperatives and MSMEs and the KDKMP, as follows:

1. Perceptions of the KDKMP as a capacity and competitiveness booster. This variable is intended to identify both the expectations and skepticism of existing cooperatives and MSMEs regarding the presence of the KDKMP.

2. The impact on market structure and business competition. This variable is intended to assess the views of existing cooperatives and SMEs regarding the KDKMP's role in fostering stronger business competition.
3. Perceptions of the business climate prior to and after establishment of the KDMP, to determine the practical and psychological impacts on regional business dynamics.

This study measured the perceptions of existing cooperatives and MSME actors regarding the presence of the KDKMP by using a questionnaire instrument with a five-point Likert scale. This scale was chosen because it can capture respondents' levels of acceptance in a more varied manner and provide a quantitative overview of respondents' attitudes and perspectives regarding the presence of the KDKMP in their communities.

Every item in the questionnaire was designed to represent the main dimensions of three variables related to the Institutionalization of KDKMP. Respondents were asked to evaluate each statement by selecting one from five response categories: (1) strongly disagree, (2) disagree, (3) neutral, (4) agree, and (5) strongly agree. This scale allows researchers to measure respondents' tendencies in a graded manner, ranging from strong rejection to strong acceptance of the KDKMP. Upon delivering the study's findings, the Likert scale is then transformed into a rating on a scale ranging from 0 to 100.

Analytical Tools

This study employs a descriptive qualitative approach aiming to provide an in-depth description of the impact of the KDKMP on business competition in the province of Central Java. A qualitative approach was chosen because it is effective in capturing social dynamics, behavior, perspectives, and interactions among business actors and cooperative members in a natural setting. The research is based on a postpositivist paradigm, in which the researcher serves as the primary instrument in the data collection as well as the interpreter of the acquired data (Wahyudi, J. 2021).

We used focus group discussions (FGDs) as our data collection method. The FGDs involved groups of respondents comprising representatives from existing cooperatives, micro, small, and medium-sized enterprises (MSMEs), and local government officials who deal with cooperatives and business competition in Central Java after the establishment of the KDKMP. Participants were selected based on specific criteria that were relevant to the research objectives, such as those who had direct involvement with the KDKMP or they who possessed in-depth experience and knowledge regarding the dynamics of business competition in Central Java. The purpose of selecting these participants was to obtain data that would be representative and relevant to our research topic. The group discussions will allow participants to share their perspectives, experiences, and the dynamics of interactions that arise in business competition—whether positive or negative—resulting from the activities of the KDKMP. These focused group discussions will be conducted in an open and conducive setting, ensuring that every participant feels at ease to provide accurate and insightful information (Dewi, I.K. 2020).

Data obtained from the FGDs was then analyzed using a thematic approach, focusing on the interpretation of narratives regarding the emergence of issues, competition strategies, and the role of cooperatives in strengthening, or weakening, the position of MSMEs and other local businesses in the market. Data validation was conducted through data triangulation, which involves combining the results of observations, documentation, and in-depth interviews to ensure the validity of the collected information (Irfan & Gunadi, 2021).

RESULTS AND DISCUSSION

Overview of the Presence of KDKMPs in Central Java Province

Of the total 8,556 KDKMP units in Central Java Province, 6,612 KDKMPs across 34 regencies and cities are currently operational. In total, the capital of KDKMPs in Central Java amounts to Rp25.3 billion, with a membership of 135,704 members. Assuming the number of cooperatives in

2024 does not change significantly, the establishment of KDKMPs will add to the number of cooperative business units in Central Java, with 27 percent of them being KDKMPs. This number is more than double of the number of producer cooperatives and savings and loan cooperatives, neither of which will have more than 4,000 business units in 2024.

There are 7,788 KDKMP in Central Java that are formally registered as legal entities. This cumulative figure confirms that KDMP is not merely a small-scale initiative, but rather an economic movement with a significant grassroots base at the provincial level. The average number is 269 cooperatives per regency. However, the disparity between regions is quite large, with a deviation of 328 units. Kebumen Regency stands as the strongest base with 451 KDKMPs, closely followed by Purworejo with 429 units. The number in Kebumen Regency is nearly four times higher than that of Kudus Regency, which has only 123 KDKMPs.

Overview of Research Respondents

The data show the backgrounds of the respondents from the two groups (managers of existing cooperatives and MSME business owners) share some similarities yet also have differences that are important to understand when assessing their perceptions of the KDMP. From the perspective of existing cooperative managers, the educational profile indicates that the majority of managers or board members hold higher education qualifications: over 55% hold a bachelor's degree (S1), and approximately 10.7% hold a master's degree. Only a small fraction have a low level of education (elementary/junior high school total ~3.6%). This educational profile indicates that cooperative managers tend to have better cognitive and technical capacity to understand issues related to institutional management, governance, and economic policy. The practical consequence of this profile is that cooperative managers may be more critical, questioning implementation, and demanding concrete evidence of the benefits before accepting new models. They are also capable of managing administration and accountability, leading to high expectations regarding KDMP transparency practices.

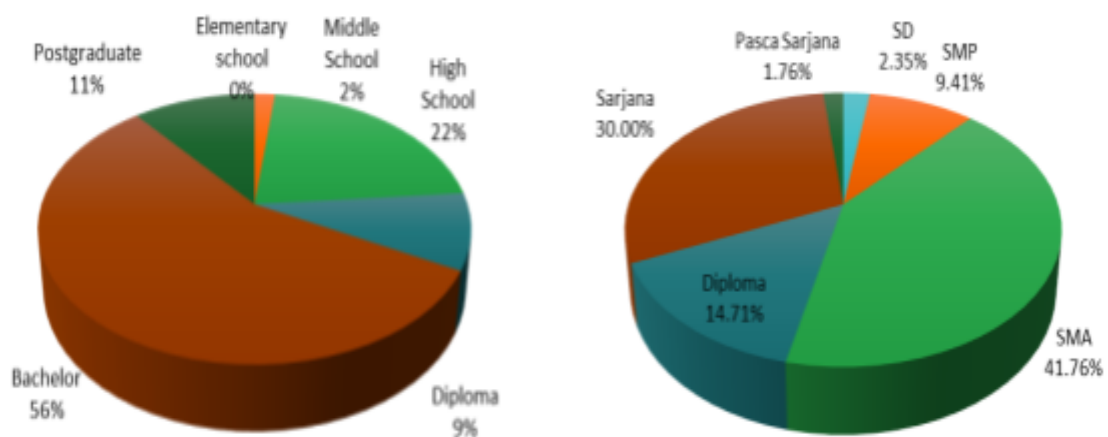


Figure 1. Educational Level of Respondents

The most common type of cooperative among respondents was savings and loan cooperatives (30 units), followed by consumer cooperatives (12), service cooperatives, and production and marketing cooperatives. The dominance of savings and loan cooperatives indicates an institutional structure focused on local financial services—this is significant because if KDMP offers financial services or capital aggregation, savings and loan cooperatives will view this as an area of direct competitive risk. Data on office ownership shows that nearly half of the cooperatives own their own offices (48.2%), which confirms the presence of fixed assets and institutional stability in a number of cooperatives. Such assets often lead to a preferential

tendency to maintain operational independence, thereby fostering a more cautionary attitude toward partnership models that could potentially alter the local economic balance

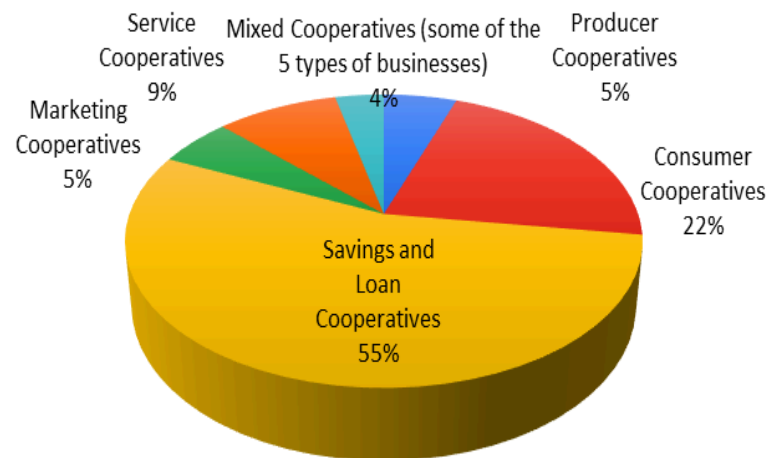


Figure 2. Types of Existing Cooperatives Run by Respondents

Training experience also reveals a significant difference: the majority of cooperative managers (approximately 87.5%) have participated in cooperative/SME training (once or more), whereas for SMEs, the majority have never participated in training (51.18%). This difference highlights two points: first, cooperatives are more often involved in formal capacity-building activities and therefore tend to have more concrete expectations regarding the program. Second, MSMEs that receive less training are a key potential target for the capacity-building programs offered by KDKMP.

Perceptions of KDMP as a Driver of Capacity and Competitiveness

The quantitative analysis in this subsection shows consistent differences between MSMEs and existing cooperative managers. The average perception score for MSMEs is around 86.3 (on a perception scale of 0–100, where 0 represents the extreme value of “strongly disagree” and 100 represents “strongly agree”), while cooperative managers have an average score of approximately 73.7. In other words, MSMEs demonstrate significantly higher optimism regarding KDMP’s ability to improve access to capital, provide training, establish marketing networks, facilitate digitalization, and help improve management. This is reasonable given that MSMEs more frequently face gaps in market/capital access and technical capacity, making the benefits offered by KDMP feel immediate and tangible to them. They view KDMP as a solution to concrete problems: lack of capital access, limited networks, and training needs.

On the cooperative management side, the more moderate scores reflect a more balanced attitude: they acknowledge KDMP’s potential but evaluate it with a degree of caution. For example, the indicator “KDMP acts as a fair and transparent business partner” scored 76.8 among cooperatives and 86.7 among SMEs, meaning SMEs are relatively more trusting towards KDMP’s good intentions. This difference may arise because cooperative managers tend to be more sensitive to institutional dynamics and potential long-term consequences (e.g., service competition, benefit sharing).

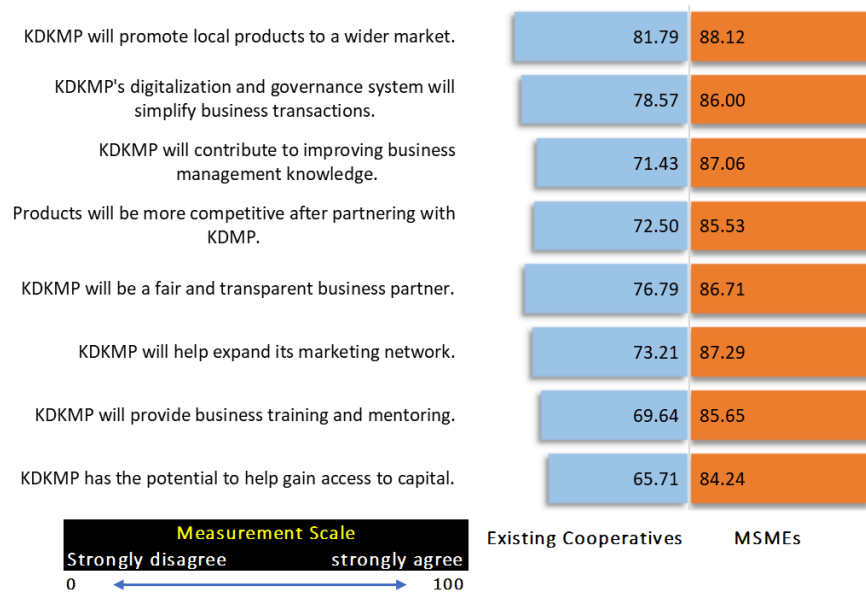


Figure 3. Perceptions of Existing Cooperatives and MSMEs Regarding the Role of KDMP/KKMP in Cooperative Capacity and Competitiveness

The highest scores (in both groups) refer to the KDMP's role as a market integrator: strengthening the marketing of local products, digitizing transactions, and improving business management knowledge. This is consistent with the KDMP's institutional mandate as an aggregator, facilitator, and provider of market services. It should be noted that interest in collaboration is high, particularly among MSMEs (95.9%) compared to cooperatives (75%). This indicates that programs emphasizing direct collaboration with MSMEs (e.g., packaging partnerships, input provision, shared market access) will quickly receive a positive response.

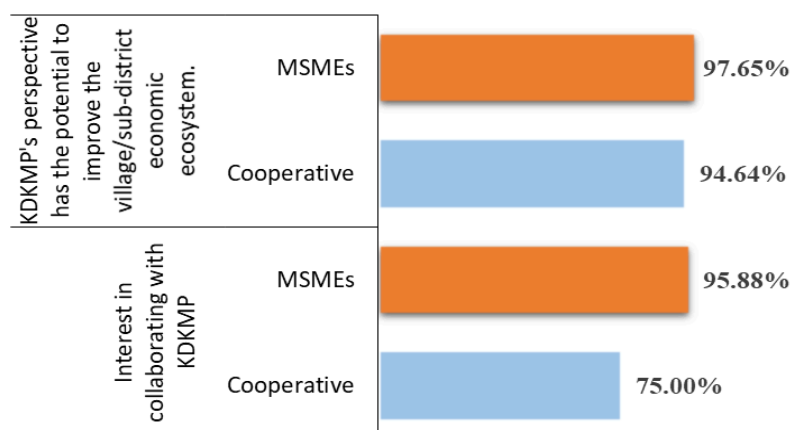


Figure 4. Interest in Collaborating with KDMP and Perspectives on KDMP's Potential to Enhance the Village/Neighborhood Economic Ecosystem

It is apparent from the previous information that KDMP needs to formulate clear, results-oriented programs (quick wins) for MSMEs, such as access to microfinance, short training programs, and market access demonstrations (1–2 pilot buyer linkages). To address cooperatives'

cautiousness, KDMP may provide a transparent benefit-sharing mechanism, operational MOUs, and collaborative pilot projects with cooperative boards serving as co-managers. Sharing early success stories (case studies) is highly effective in reducing cooperatives' skepticism.

Impact on market structure and business competition

Regarding business competition, data from the questionnaire shows an interesting empirical finding. Both groups (existing cooperatives and MSMEs) acknowledge that the KDMP will make competition more intense. Cooperative managers gave a score of 64.6 (KDMP–cooperatives) and MSMEs 58.2 (KDMP–MSMEs). However, regarding the possibility of unfair competition practices, the scores given were relatively low (cooperatives ~38.6; MSMEs ~34.1). Thus, the general perception is that the KDMP will increase competition, but this competition tends to be viewed as healthy and fair, not as competition that disrupts the market.

A high score was also assigned to the following statement: that KDMP can help stabilize the prices of raw materials and finished products (cooperatives ~68.9; MSMEs ~75.4). This indicates that respondents view the role of KDMP as aggregator/supply regulator—a function that can reduce price fluctuations, strengthen the bargaining power of local buyers and sellers, and provide stability for the micro-supply chain. Price stability has significant implications: it reduces uncertainty for MSMEs, enables more effective production plans, and strengthens the bargaining power of business actors in the market. Furthermore, evidence suggests that the majority of respondents do not believe KDMP activities will hinder business expansion for existing cooperatives or SMEs. Scores for the statement “KDMP activities will hinder development” were low (both ~31 and 34). This indicates confidence that the KDMP model is not a destructive competitor but rather a catalyst that expands markets and collaboration opportunities. This support is reinforced by the scores on the statement that KDMP will “foster more collaboration than competition” (cooperatives 72.14; MSMEs 77.29) and that they believe business competition in the village will improve (around 75).

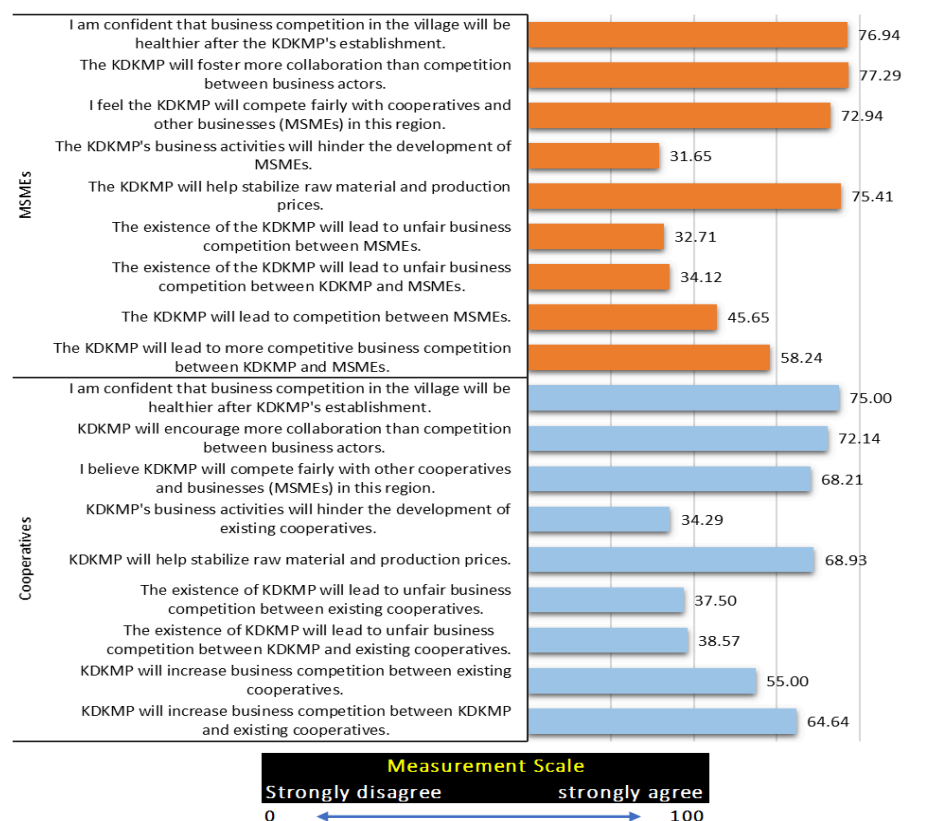


Figure 5. Perceptions of Cooperatives and MSMEs Regarding Market Structure and Business Competition Resulting from the Presence of KDKMP

Overall, this trend reflects an optimistic market outlook: the KDMP is viewed as an entity capable of fostering competition based on quality, efficiency, and market access, rather than competition based on price dumping or other predatory practices. Thus, to ensure competition remains fair, KDMP and the government need to establish a code of conduct for competition, a complaint mechanism among business actors, and market monitoring tools (such as a local raw material price index). In addition, KDMP can emphasize its stabilizing role through service offerings (such as bulk purchasing and harvest season production scheduling) that benefit all parties

Perceptions of the business climate before and after the KDMP

Overall, this trend reflects an optimistic market outlook: the KDMP is viewed as an entity capable of fostering competition based on quality, efficiency, and market access, rather than competition based on price dumping or other predatory practices. Thus, to ensure competition remains fair, KDMP and the government need to establish a code of conduct for competition, a complaint mechanism among business actors, and market monitoring tools (such as a local raw material price index). In addition, KDMP can emphasize its stabilizing role through service offerings (such as bulk purchasing and harvest season production scheduling) that benefit all parties

An interesting finding is the level of optimism regarding the future of businesses (over 80 in both groups). This is an important psychological impact, as confidence in the future encourages investment, calculated risk-taking, and creative decisions at the micro level. In the specific context of the rural economy, this effect can accelerate the accumulation of social and economic capital.

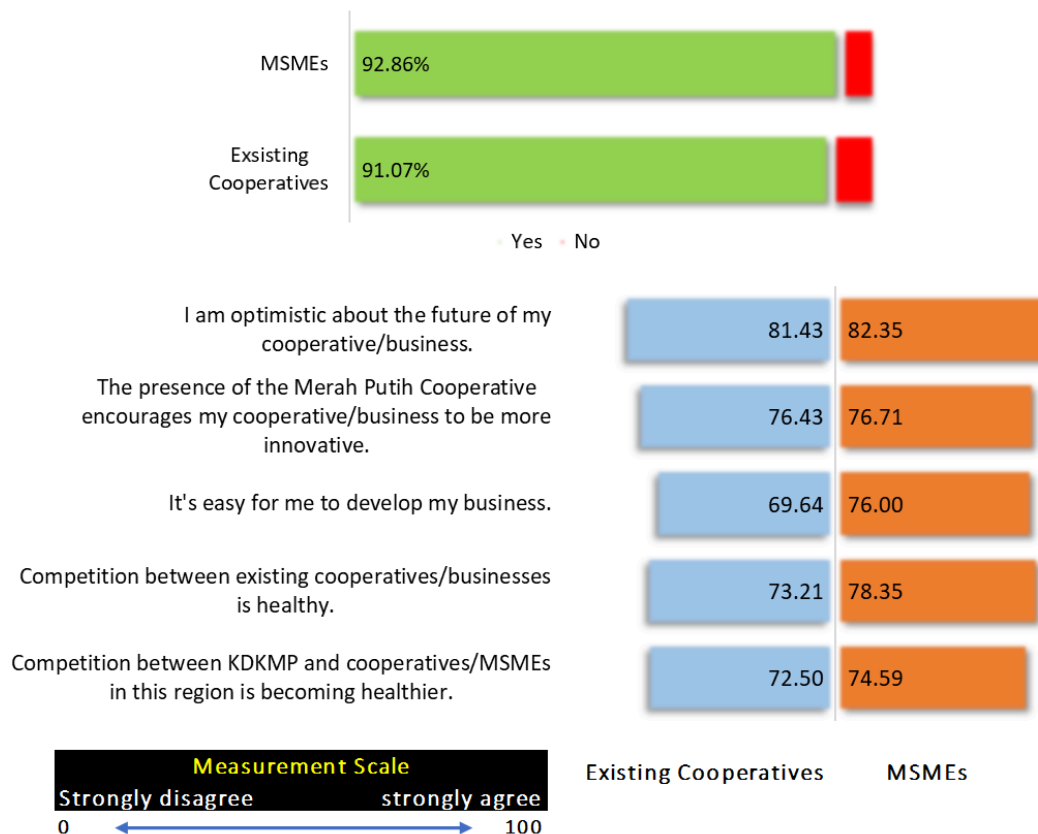


Figure 6. Perspectives of Existing Cooperatives and MSMEs Following the Establishment of KDKMP

It is also important to note the strong empirical support, with over 90% of respondents in both groups indicating that business competition has become fairer following the establishment of KDKMP. This is a strong indication of KDKMP's institutional legitimacy, as long as its

implementation remains on track. This positive psychological momentum is crucial for KDMP to take advantage of by launching small-scale innovation programs that encourage MSMEs to adopt new practices (such as co-branding, quality standardization, digital marketplaces, quick-win promotional programs, and so on).

CONCLUSION

This study emphasizes that the existence of the Merah Putih Village/Subdistrict Cooperatives (KKDMP) in Central Java Province holds an ambivalent position within the local economic ecosystem. On the one hand, KKDMPS hold significant potential as instruments for strengthening the people's economy, particularly in expanding access to financing, enhancing business service inclusion, and serving as distribution channels for MSME empowerment programs. However, on the other hand, their presence has not yet been fully integrated into existing economic institutional structures, particularly existing cooperatives, thereby generating a fairly strong perception of competition.

Research findings indicate a clear difference in perception between existing cooperatives and MSMEs. Existing cooperatives tend to view KKDMP as an entity that could potentially disrupt business equilibrium through competing for members, overlapping services, and unequal access to government support. Conversely, MSMEs view KKDMP more as an opportunity, although its benefits have not yet been widely felt due to limitations in service reach and mentoring.

Thus, the main issue does not lie in the existence of KKDMP as a new institution, but rather in the lack of an effective "link and match" mechanism between KKDMP, MSMEs, and existing cooperatives. Therefore, efforts to strengthen the role of KKDMP must be directed toward institutional transformation from a mere administrative cooperative into an adaptive, inclusive, and integrated local economic service center, enabling it to reduce disparities in SME development and strengthen synergy within the regional economic ecosystem.

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