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Financial Literacy as a Mediating Mechanism between Good Governance and Cooperative Financial Performance: Perception Evidence from Bekasi City, Indonesia

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Abstract: Research on the relationship between good governance and financial performance in cooperatives still remains as interesting topic for study. This study aims to examine the relationship between good governance and financial performance in cooperatives through the perceptions of supervisors, board members, and cooperative members. Mediating and control variables were used to strengthen the research findings. Research data were collected by distributing questionnaires to respondents meeting the criteria of supervisors, board members, and active cooperative members registered in Bekasi City. The respondents' data were analysed using Smart PLS 3 to obtain results for the outer model and inner model. The study found that independence variable has a significant effect on literacy, and the literacy variable has a significant effect on performance. The results of the hypothesis testing showed that the relationship between the tested variables had an effect but was not significant. The conclusion drawn from this study is that, in addition to independence, it is necessary for board members to have sound financial knowledge to support the management of the cooperative. This study also contributes by recommending that cooperative board members acquire adequate financial knowledge.

Keyword: Governance, Literacy, Financial, Performance, Cooperatives.

INTRODUCTION

According to data from the Ministry of Cooperatives of the Republic of Indonesia, the number of cooperatives in Indonesia grew significantly between 2020 and 2024. In 2020, there were 127,124 active cooperatives, and by the end of 2024, that number had risen to 131,617. Cooperatives in Indonesia have made a significant contribution to GDP, amounting

to 6.20% in both 2020 and 2021. This contribution stems from the surplus distributed by cooperatives, estimated at Rp. 1,327.55 (in billions) in 2020 and Rp. 1,302.86 (in billions) in 2021 (Indonesian Ministry of Cooperatives, 2026). The growth of active cooperatives in Bekasi City, as shown in Table 1, indicates that cooperatives are a popular form of business entity among the public, particularly in Bekasi City. This public interest is certainly influenced by several factors that make cooperatives attractive to the public. Cooperatives in Indonesia are business entities that are legal entities and are regulated by cooperative law. The law governing cooperatives in Indonesia is UU No. 25 of 1992 on Cooperatives. This law states that the supervision of cooperatives in Indonesia is carried out not only by their members but also by the government through government agencies responsible for cooperatives.

Numerous studies have been conducted on cooperatives, including those related to good governance. These earlier studies on cooperatives and good governance employed a variety of variables. Consequently, these studies yielded diverse conclusions. Among the conclusions drawn was the finding of a significant relationship between good governance and cooperative performance (Jamaluddin et al., 2023). However, several other studies have also found that this effect is not significant. Some of these researchers used five principles of corporate governance as a proxy for the variable of good corporate governance (Ángel et al., 2021; Muthengi & Ragui, 2023), however some studies use only a few selected principles. Mediating variables have also been used in some studies to strengthen their findings (Said, 2025).

Cooperative performance is influenced by many factors, among which financial performance is always a primary concern (Jamaluddin et al., 2023). The cooperative's financial performance will be reflected in its financial statements. The primary objective of a cooperative is generally to improve the well-being of its members, which will increase if the cooperative itself performs well. A cooperative's financial statements serve as a form of accountability for the board of directors and illustrate the cooperative's financial performance; they are generally intended for the cooperative's members (Bodenstein Fouché & Polo-Garrido, 2024). Good financial performance by a cooperative will generate surplus income for its members, thereby improving their well-being.

Good Cooperative Governance is another term for Good Corporate Governance as applied to cooperative entities. The implementation of good governance principles in cooperatives is influenced by many factors, including management, strategy, capital, and human resources (Jamaluddin et al., 2023). These factors should be inherent in the individuals who serve as cooperative board members, as they are closely related to the competencies of those board members, who are responsible for managing the cooperative's operations (S. U. Rehman et al., 2023). The presence of these factors among cooperative management will influence the implementation of the principles of good cooperative governance. Cooperatives that adhere to the principles of good governance will see a positive impact on their performance (Iliopoulos & Valentinov, 2022). These impacts are related to the cooperative's performance.

A person will be able to make sound, unbiased decisions if they have a good understanding of the issues they are facing (Baker et al., 2019). One of the challenges facing cooperatives is in the financial realm, as cooperatives are business entities aimed at improving the well-being of their members. The board of directors will always face financial challenges in managing the cooperative. This requires the board to understand and master these financial issues. A thorough understanding and mastery of these issues can be achieved through financial literacy in this area (Eniola & Entebang, 2017). One aspect of literacy is financial literacy, which is a solid understanding of financial concepts. Understanding these financial concepts will better equip individuals to make financial decisions (Adil et al., 2022;

K. Rehman & Mia, 2024). Sound financial decisions can have a positive impact on a cooperative's overall performance. This suggests that the financial literacy of cooperative executives is related to the cooperative's performance (Marinov, 2023).

Studies in the fields of accounting and organizational management show that the financial competence and literacy of an organization's management can strengthen the positive relationship between governance and organizational performance (Jamaluddin et al., 2023; Moore, 2025; Polo-Garrido & Mari-Vidal, 2025). This means that good governance will be more effective in improving performance if it is supported by managers' ability to properly understand and manage the organization's financial aspects. The relationship between good governance and financial performance, with financial literacy as a mediator, has not yet been extensively studied (Jamaluddin et al., 2023; Polo-Garrido & Mari-Vidal, 2025; K. Rehman & Mia, 2024; Teixeira & Carvalho, 2024). Therefore, further research is needed on how good governance in cooperatives can influence cooperative performance and how the financial literacy of board members acts as a mediating variable in that relationship. This study uses tenure (length of operation) as a control variable to ensure that changes in the dependent variable are purely caused by the independent variable, rather than by external factors.

METHOD

Sample

This study employs a quantitative method, with the population consisting of individuals who are members of active cooperatives registered in Bekasi City in 2025. The exact size of the population cannot be determined due to the lack of official data. The sample for this study was drawn from this population; the selection was conducted randomly without any specific preference for respondents. A total of 60 samples will be collected. The sampling method used was purposive sampling, with the respondents selected from among the cooperative's management, supervisory board members, or members.

Data Collection

The data for this study was collected using a Google Form distributed to cooperative administrators and members in the Bekasi City area via WhatsApp and email. The collected data will be sorted to identify the registration status of the respondents' cooperatives; only 60 respondents from cooperatives registered in Bekasi City will be selected as the sample. Data collection took place during April and May 2026.

Table 1. The Growth of Active Cooperatives in Bekasi City

Year	Amount
2020	806
2021	863
2022	901
2023	920
2024	982

Source: Bekasi City in Figures (BPS Bekasi City)

Measures

The questionnaire questions are divided into 8 sections: 5 sections on good governance, 1 section on financial literacy, 1 section on the age of the cooperative, and 1 section on cooperative performance. The section on good governance includes subsections representing the principles of good governance: transparency, accountability, responsibility, independence, and fairness. Data from each section were measured using Likert-scale questions to gauge

respondents' perceptions, with a scale ranging from 1 to 5. Meanwhile, for the control variable of business age, three categories of business age were used.

The software used to analyze the data was SEM-SmartPLS 3, which was appropriate given the limited sample size of 60 respondents; the data analysis was conducted using a significance level of $\alpha = 0.05$ with a 95% confidence level.

RESULT AND DISCUSSION

Analysis Descriptive

A total of 60 respondents completed and returned the questionnaire, consisting of 60% (36 respondents) who were board members; 12% (7 respondents) who were supervisors; and 28% (17 respondents) who were members, and then the data was then analyzed using SmartPLS 3. As for the data on respondents based on the length of their involvement in the cooperative, 37 respondents (62%) had been involved for more than 3 years; 15 respondents (25%) for 1–3 years; and 8 respondents (13%) for less than 1 year. This composition of respondents suggests that they have a good understanding of the cooperative

Analysis Inferential

Outer Model

Table 2. Outer Loading Result

	Accountab	Fairness	Independ	Literacy	Performance	Responsib	Transpar	Tenure	Remark
A1	0,754								Valid
A2	0,844								Valid
A3	0,870								Valid
A4	0,929								Valid
A5	0,886								Valid
F1		0,909							Valid
F2		0,929							Valid
F3		0,816							Valid
F4		0,932							Valid
F5		0,893							Valid
I1			0,925						Valid
I2			0,932						Valid
I3			0,945						Valid
I4			0,955						Valid
I5			0,878						Valid
K1					0,833				Valid
K2					0,921				Valid
K3					0,851				Valid
K4					0,871				Valid
K5					0,896				Valid
L1				0,822					Valid
L2				0,924					Valid
L3				0,900					Valid
L4				0,863					Valid
L5				0,841					Valid
R1						0,870			Valid
R2						0,847			Valid
R3						0,948			Valid
R4						0,934			Valid
R5						0,928			Valid
T1							0,814		Valid
T2							0,791		Valid
T3							0,881		Valid
T4							0,913		Valid

Accountab	Fairness	Independ	Literacy	Performance	Responsib	Transpar	Tenure	Remark
T5						0,850		Valid
T6						0,870		Valid
TN							1	Valid

Source: Smart PLS3 Research Result

1) Convergent Validity

Table 3. Construct Reliability and Validity

	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)	Remark
Transparancy	0,92553	0,93444	0,94171	0,72963	Valid
Accountability	0,91032	0,92603	0,93312	0,73707	Valid
Responsibility	0,94514	0,94889	0,95820	0,82124	Valid
Independency	0,95916	0,96496	0,96841	0,85988	Valid
Fairness	0,93885	0,94970	0,95353	0,80443	Valid
Literacy	0,91972	0,92243	0,93993	0,75819	Valid
Performance	0,92306	0,92500	0,94221	0,76555	Valid
Tenure	1	1	1	1	Valid

Source: Smart PLS3 Research Result

a. Loading Factor / Outer loading

The loading factor (outer loading) test is used to measure the correlation between indicators and their respective constructs. The results of the outer loading test, presented in Table 2, show that all indicators have values > 0.70. If the outer loading value is greater than 0.70, the indicator is considered valid (Hamid & Anwar, 2019). These results confirm that all indicators can be used in this study because they are valid.

b. Average Variance Extracted

The Average Variance Extracted (AVE) test is used to measure convergent validity. This AVE test ensures that a latent variable is capable of explaining a significant portion of the variance in the indicators. Table 3 shows that the AVE values for all variables are greater than 0.5. If the AVE value is > 0.50, the variable is considered valid in the study.

2) Discriminat Validity

a. Cross Loading

Table 4. Cross Loading Result

	Accountab.	Fairness	Independ.	Literacy	Perform.	Responsib.	Transpar.	Tenure	Remark
T1	0,6658	0,7678	0,5543	0,3555	0,4755	0,7317	0,8144	-0,0396	Valid
T2	0,6725	0,6559	0,4737	0,3748	0,3515	0,7118	0,7906	-0,1652	Valid
T3	0,7392	0,7893	0,5747	0,4203	0,5413	0,7853	0,8815	-0,1123	Valid
T4	0,7136	0,8086	0,5266	0,5253	0,4194	0,7672	0,9129	0,0599	Valid
T5	0,6025	0,6864	0,4196	0,4573	0,3286	0,6311	0,8503	0,0848	Valid
T6	0,7803	0,6572	0,5409	0,5520	0,4800	0,7536	0,8696	0,0249	Valid
A1	0,7536	0,5965	0,5641	0,4341	0,5356	0,6853	0,6008	-0,1123	Valid
A2	0,8441	0,6278	0,6828	0,7430	0,6355	0,7110	0,7492	0,0266	Valid
A3	0,8703	0,5405	0,8925	0,7560	0,7557	0,7711	0,6517	-0,1498	Valid
A4	0,9289	0,6849	0,6660	0,6194	0,6581	0,9006	0,7538	-0,0470	Valid
A5	0,8857	0,6720	0,6335	0,5210	0,5635	0,8828	0,7575	-0,1968	Valid
R1	0,8149	0,6850	0,6864	0,6741	0,5688	0,8697	0,7442	-0,1198	Valid
R2	0,7404	0,8192	0,5899	0,4949	0,5361	0,8469	0,7347	-0,0468	Valid
R3	0,8425	0,8853	0,6858	0,5853	0,5656	0,9482	0,8183	-0,0116	Valid
R4	0,9008	0,6739	0,6632	0,5895	0,6034	0,9337	0,7975	-0,0767	Valid
R5	0,8503	0,6920	0,6942	0,6279	0,6425	0,9284	0,7859	-0,0954	Valid
I1	0,7559	0,4837	0,9252	0,7094	0,7968	0,6322	0,5092	-0,0811	Valid
I2	0,7320	0,4769	0,9323	0,7120	0,7514	0,6229	0,4467	-0,1317	Valid

	Accountab.	Fairness	Independ.	Literacy	Perform.	Responsib.	Transpar.	Tenure	Remark
I3	0,8637	0,7172	0,9448	0,8200	0,8170	0,8149	0,7144	-0,0426	Valid
I4	0,8270	0,7062	0,9546	0,7702	0,8309	0,7994	0,6477	-0,0691	Valid
I5	0,5716	0,5503	0,8777	0,5933	0,6719	0,4950	0,4580	-0,0984	Valid
F1	0,6875	0,9092	0,6208	0,4737	0,5080	0,7724	0,8011	0,0500	Valid
F2	0,7123	0,9291	0,6097	0,4493	0,4950	0,7861	0,7975	0,0734	Valid
F3	0,5907	0,8159	0,4912	0,3263	0,3650	0,6658	0,6640	-0,0446	Valid
F4	0,6558	0,9321	0,5915	0,4751	0,4385	0,7689	0,7634	0,0807	Valid
F5	0,5739	0,8932	0,5276	0,4499	0,3612	0,6877	0,7810	0,0948	Valid
L1	0,5099	0,3527	0,6447	0,8218	0,6709	0,4855	0,3591	0,0313	Valid
L2	0,6192	0,3815	0,7229	0,9239	0,7254	0,5614	0,3715	0,0499	Valid
L3	0,6596	0,5004	0,7247	0,9000	0,7681	0,5857	0,4722	0,0440	Valid
L4	0,7171	0,4588	0,6229	0,8634	0,6550	0,6524	0,5908	-0,0925	Valid
L5	0,6898	0,4311	0,6848	0,8405	0,8005	0,5845	0,5098	-0,0588	Valid
K1	0,6161	0,3986	0,7902	0,6704	0,8326	0,5370	0,3834	-0,1820	Valid
K2	0,6732	0,4544	0,7161	0,7907	0,9211	0,5772	0,4296	0,0925	Valid
K3	0,7380	0,4613	0,7042	0,7600	0,8511	0,6217	0,5673	-0,0099	Valid
K4	0,5935	0,3545	0,6262	0,6818	0,8710	0,5196	0,3903	-0,0232	Valid
K5	0,6306	0,4603	0,8150	0,7413	0,8961	0,5634	0,4641	-0,0495	Valid
TN	-0,1068	0,0609	-0,0893	-0,0056	-0,0386	-0,0793	-0,0246	1,0	Valid

Source: Smart PLS3 Research Result

The cross-loading test aims to assess the discriminant validity of a model. This test ensures that each indicator has a higher correlation with and better measures its primary construct (variable) than with any other construct in the research model. As shown in Table 4, the loading values of all indicators for their respective variables are greater than the loading values of those indicators for other variables. This indicates that all indicators are valid and meet the research criteria.

b. Fornell-Larcker

Table 5. Fornell-Locker Criterion Result

	Account.	Fairness	Independ.	Literacy	Perform.	Responsib.	Tenure	Transpar.	Remark
Accountability	0,8585								Valid
Fairness	0,7214	0,8969							Valid
Independency	0,8167	0,6376	0,9273						Valid
Literacy	0,7362	0,4895	0,7830	0,8707					Valid
Performance	0,7447	0,4890	0,8379	0,8348	0,8750				Valid
Responsibility	0,9180	0,8238	0,7350	0,6599	0,6456	0,9062			Valid
Tenure	-0,1068	0,0609	-0,0893	-0,0056	-0,0386	-0,0793	1,0		Valid
Transparency	0,8185	0,8515	0,6058	0,5296	0,5125	0,8568	-0,0246	0,8542	Valid

Source: Smart PLS3 Research Result

The Fornell-Larcker test is used to assess discriminant validity. This test ensures that each latent variable is truly distinct and unique from the other variables. A model meets this criterion if the square root of the AVE for a given variable is greater than the correlation coefficient between that variable and any other variable in the model. Table 5 shows that the square root values for each variable are all greater than their correlation coefficients with other variables. This indicates that all variables are valid in this study.

c. Heterotrait-Monotrait (HTMT)

Table 6. Heterotrait-Monotrait Ratio Result

	Accountability	Fairness	Independency	Literacy	Performance	Responsibility	Tenure
Accountability							
Fairness	0,784524						
Independency	0,849466	0,662997					
Literacy	0,781313	0,520946	0,826543				
Performance	0,799612	0,517343	0,883888	0,901680			
Responsibility	0,991372	0,877652	0,760299	0,703646	0,688698		
Tenure	0,130105	0,079095	0,093164	0,066262	0,085018	0,079595	
Transparency	0,888380	0,911903	0,633304	0,568149	0,546836	0,914819	0,098797

Source: Smart PLS3 Research Result

The HTMT test is used to measure discriminant validity. This test ensures that a variable is conceptually distinct from other variables. Discriminant validity is considered to be met and adequate if the correlation values between constructs are below the following threshold: if the HTMT value is < 0.90 , then the variable is valid. Table 6 shows that the HTMT values for all variables are < 0.90 ; therefore, all variables are valid and acceptable.

3) Construct Reliability

a. Cronbach's Alpha

Cronbach's alpha was used to measure the consistency and reliability of questionnaire responses for each indicator of a variable. A research instrument is considered reliable if its Cronbach's alpha value is > 0.70 . As shown in Table 3, all variables have Cronbach's alpha values > 0.70 ; therefore, it is concluded that all variables are reliable.

b. Composite Reliability

This composite reliability test aims to measure the internal consistency of the indicators within they variable. A variable is considered reliable if its composite reliability value is > 0.70 . As shown in Table 3, all variables have a Cronbach's alpha value > 0.70 ; therefore, it is concluded that all variables are reliable. This indicates that all variables possess adequate internal consistency in measuring the variable in question.

4) Model Fit

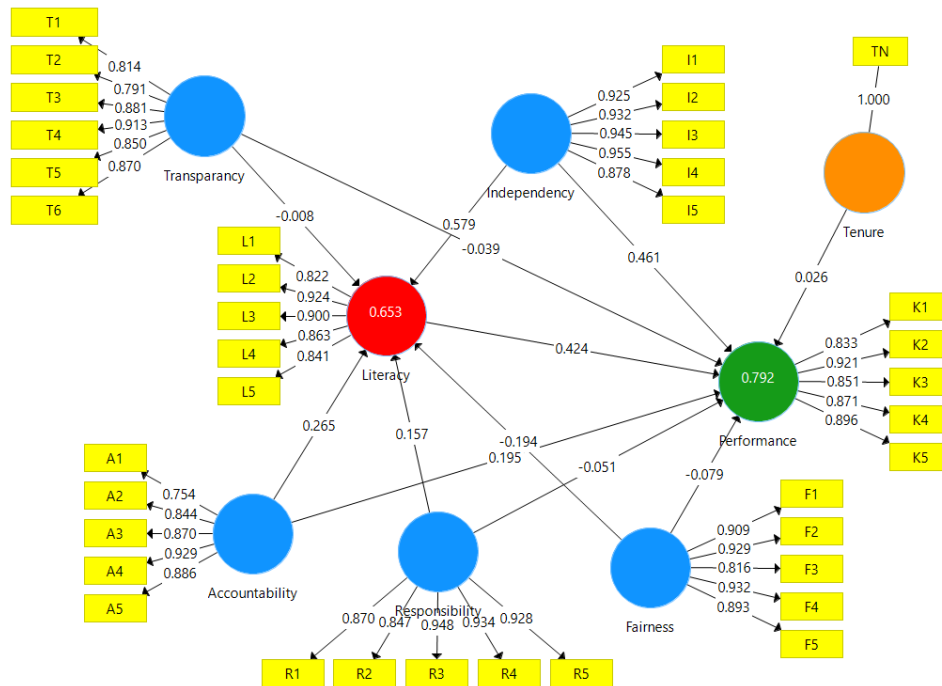
Table 7. Model Fit Result

	Value	Rule of Thumb	Remark
SRMR	0,0841	$< 0,1$	Fit
NFI	0,2575	Near to 1	Fit
Q ² _predict	0,3453 0,6785	Q ² > 0 ; Model relevance	Fit; Stronge
RMSE	0,8907 0,6411	Excellent Fit if $< 0,05$ Poor Fit if $\geq 0,10$	Fit; Poor

Source: Smart PLS3 Research Result

Uji Model Fit berfungsi untuk memastikan bahwa model konseptual yang dibangun cocok dan layak digunakan berdasarkan data empiris. Di dalam pendekatan Partial Least Square - Structural Equation Modeling (PLS-SEM) di penelitian ini, terdapat tiga indikator utama yang biasa digunakan untuk menilai kecocokan model, yakni SRMR, NFI, Q²_predict dan RMSE. Pada Table 7 diketahui nilai SRMR sebesar 0,0841 (Fit); NFI sebesar 0,2575 (Fit); Q²_predict sebesar 0,3453 dan 0,6785 (Fit-Stronge); dan RMSE sebesar 0,8907 dan 0,6411 (Fit-Poor).

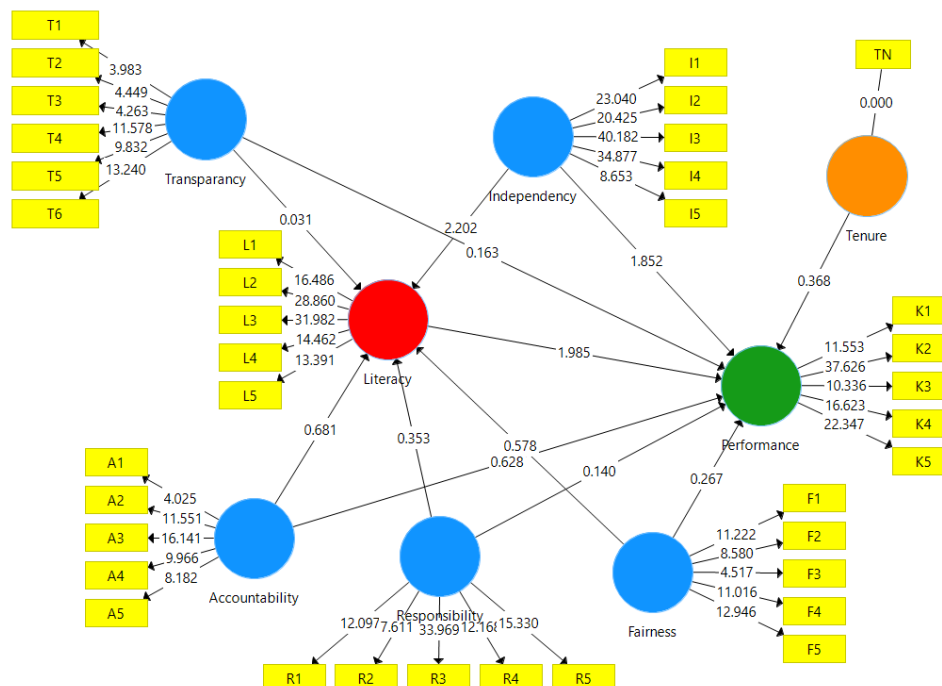
The results of the PLS algorithm calculations for all outer model tests are shown in the model in Figure 1.



Source: Research Result with Smart PLS3

Figure 1. Outer Model

Inner Model



Source: Research Result with Smart PLS3

Figure 2. Inner Model

1) R-Square (R^2)

Table 8. R Square Result

	R Square	R Square Adjusted
Literacy	0,6534	0,6213
Performance	0,7924	0,7644

Source: Smart PLS3 Research Result

The R-squared (R^2) test is a coefficient of determination that measures the percentage of variation in the dependent variable that can be explained by the independent variables. The R^2 value ranges from 0 to 1; the higher the value, the greater the influence of the independent variables on the dependent variable. Table 8 shows that the R^2 value for Literacy is 0.6534 and for Performance is 0.7924. This means that the variables Transparency, Accountability, Responsibility, Independence, and Fairness can explain 65% of the variation in Literacy; meanwhile, for the variable Performance, the variables Transparency, Accountability, Responsibility, Independence, Fairness, Literacy, and Tenure together can explain 79% of the variation.

2) Uji Hipotesis

Table 9. Path Coefficients

	Original Sample (O)	T Statistics (O/STDEV)	P Values	Remark
Transparency -> Literacy	-0,0078	0,0307	0,9755	Rejected
Accountability -> Literacy	0,2650	0,6345	0,5261	Rejected
Responsibility -> Literacy	0,1573	0,3117	0,7554	Rejected
Independency -> Literacy	0,5794	2,1535	0,0318	Accepted
Fairness -> Literacy	-0,1940	0,5471	0,5846	Rejected
Transparency -> Performance	-0,0385	0,1670	0,8674	Rejected
Accountability -> Performance	0,1950	0,6422	0,5210	Rejected
Responsibility -> Performance	-0,0512	0,1461	0,8839	Rejected
Independency -> Performance	0,4607	1,8870	0,0597	Rejected
Fairness -> Performance	-0,0794	0,2622	0,7933	Rejected
Literacy -> Performance	0,4238	1,9845	0,0477	Accepted
Tenure -> Performance	0,0256	0,4002	0,6892	Rejected

Source: Smart PLS3 Research Result

a. Direct Effect

If the P-value is < 0.05 , then the hypothesis is accepted. Table 9 shows that Hypothesis H_4 has a P-value of 0.0318 and H_{11} has a P-value of 0.0477; therefore, it is concluded that both hypotheses are accepted because their P-values are < 0.05 . Meanwhile, hypotheses H_1 , H_2 , H_3 , H_5 , H_6 , H_7 , H_8 , H_9 , H_{10} , and H_{12} have P-values > 0.05 and are therefore rejected.

b. Indirect Effect

Table 10. Specific Indirect Effects

	Original Sample (O)	T Statistics (O/STDEV)	P Values	Remark
Transparency -> Literacy -> Performance	-0,0033	0,0301	0,9760	Rejected
Accountability -> Literacy -> Performance	0,1123	0,5560	0,5784	Rejected
Responsibility -> Literacy -> Performance	0,0667	0,2611	0,7941	Rejected
Independency -> Literacy -> Performance	0,2455	1,3960	0,1633	Rejected
Fairness -> Literacy -> Performance	-0,0822	0,3898	0,6968	Rejected

Source: Smart PLS3 Research Result

If the P-value is less than 0.05, the hypothesis is accepted. Table 10 shows that none of the hypotheses have a P-value less than 0.05; therefore, hypotheses H₁₃, H₁₄, H₁₅, H₁₆ and H₁₇ are rejected.

3) f Square (f²)

Table 11. f Square Result

	Literacy	Performance
Accountability	0,018	0,016
Fairness	0,021	0,006
Independency	0,272	0,222
Literacy		0,291
Performance		
Responsibility	0,007	0,001
Tenure		0,003
Transparency	0,000	0,001

The F² test (effect size) is used to measure the extent of the substantive influence or contribution of an exogenous variable (independent variable) on an endogenous variable (dependent variable) at the structural level. This test complements the significance test (P-value/T-statistic). According to Cohen's guidelines, the magnitude of the f² value is classified into three categories: an f² value ≥ 0.02 indicates a small effect (Weak); f² ≥ 0.15 indicates a moderate effect (Moderate); and f² ≥ 0.35 indicates a large effect (Strong). Table 11 shows that the f² value for the Fairness variable in relation to the Literacy variable is 0.021, which indicates a weak effect. The f² value for the relationship between the "Independency" variable and the "Literacy" variable is 0.272, indicating a moderate effect, and the f² value for the relationship between the "Independency" variable and the "Performance" variable is 0.222, also indicating a moderate effect. Meanwhile, the f² value for the relationship between the "Literacy" variable and the "Performance" variable is 0.291, which also indicates a moderate effect.

CONCLUSION

The results of the data analysis from this study show that many of the hypotheses were rejected because the P-values indicated they were not significant. Only hypotheses H₄ and H₁₂ were accepted. These results reinforce the conclusion that financial literacy is an important element in improving the financial performance of cooperatives, according to the respondents' perceptions. This study also offers another conclusion: not all principles of good governance have a positive impact on financial performance, even if that impact is not statistically significant. Given the study's limitations-including the small sample size and the use of perceptions as research data-we recommend that future studies utilize secondary data or financial statements as proxies for financial performance.

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