The Influence of Cooperative Development on Economic Performance and Welfare of Society in Bali Province

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Abstract: *This research aims to analyze the influence of cooperative development on the economic performance and welfare of society in Bali Province, as well as to analyze the indirect influence of cooperative development on the welfare of society through the economic performance of Bali Province. The data used in this research is panel data which consists of 9 cities/regencies of Bali Province within the year of 2010 – 2014. The data analysis that is used is the quantitative statistical analysis uses the Structural Equation Modelling-Partial Least Square (SEM-PLS) method. Based on the result of data analysis, this research found that the cooperative development has positive and significant influence on welfare of society and the economic performance of Bali Province, economic performance has positive and significant influence on the welfare of society in Bali Province, as well as the cooperative development which has indirect influence on the welfare of society through the improvement of economic performance of Bali Province.*
Keywords: *Welfare of Society, Economic Performance, Cooperative Development*

I. Introduction

Welfare is the purpose of the Republic of Indonesia Union (NKRI) establishment. This has been affirmed in the preamble of the Basic Constitution (UUD) of 1945, which stated that the purpose of the Homeland NKRI is: "Pursuant to which, in order to form a Government of the State of Indonesia that shall protect the whole people of Indonesia and the entire homeland of Indonesia, and in order to advance general prosperity, to develop the nation's intellectual life, and to contribute to the implementation of a world order based on freedom, lasting peace and social justice". According to Fahrudin (2012), the term 'general welfare' which listed in the prelude of the 1945 Basic Constitution, has the same meaning as the term 'social welfare' that contained in Part XIV of the 1945 Basic Constitution of the Republic of Indonesia Number 11 Year 2009 concerning social welfare, article 1, paragraph 1, states that: "social welfare is a condition of the fulfillment of material needs, spiritual and social life of the community in order to live a proper life and able in developing themselves so that they can perform their social function".

According to Sen (2000), if the economic success of a nation is determined solely by the income and the indicators of traditional luxury, financial health, then the main objectives for the achievement of prosperity had failed. The gist of welfare is to create an individual who have the capability, so as to respond to the opportunities that exist, in order to influence the social and economic changes. Meanwhile, according to Midgley (1997), social welfare is a condition in which man is able to resolve the social problems he faces, to fulfil all of his needs and to maximize social opportunities that he had.

Welfare can be realized through the development in all fields, including in the economic field. Development is seen from an economic standpoint, can be interpreted as an effort to achieve a growth rate of per capita income that is sustainable, so that a country can gain more and faster output than the rate of the population growth (Todaro and Smith, 2011). Sen (2000), declare that 'development is freedom'. Development associated with freedom, can be understood as the freedom of the condition of lacking the necessities of life that are material and freedom from servitude social on the environment, other people, the suffering, the agency repressive and freedom from dogmatic belief states that poverty is the fate that has been destined by God (Todaro and Smith, 2011).

Indonesia's economic development adheres to the principles mandated by the 1945 Basic Constitution. Referring to the constitution, culture, customs, spirit, and economic patterns of the community that emphasize aspects of solidarity, sociality and kinship, so the most appropriate economic system prevailing in Indonesia is the Economic System of Pancasila (Halid, 2014). The main economic actors in the Economic System of Pancasila (SEP), consisting of 3 (three), the State-Owned Enterprises/Regional-Owned Enterprises (BUMN /BUMD), privates and cooperation (Ismail et al, 2015). According Limbong (2013), SEP has principles, among them are cooperation is a cornerstone of the economy and economic system that doesn't dominated by capital, but instead it is based on the principle of kinship. Meanwhile, Mubyarto (2010), argues that the SEP has a section called the people's economy, where the teacher is the cornerstone of the cooperative.

Cooperative as a cornerstone of Indonesia's economy, has the honorable position under the system of Indonesia's economy. Cooperation according to the Constitution of the Republic of Indonesia Number 25 of 1992, is a "business entity consisting of a person or legal entity with the bases of cooperative activities based on the principle of cooperation as well as people's economic movement based on the principle of kinship". According to Halid (2014), cooperation is a socio-economic system and the only tool originally belongs to Indonesia in order to bring justice and sustainable welfare. Swasono (2003), states that the cooperative is a socio-economic institutions that are helping themselves together and has a grassroots and bottom-up approach. The ministry of Cooperatives and Small Medium Enterprises of Republic Indonesia, Puspayoga (2015), stated that the success in developing cooperation can increase employment opportunities and incomes, as well as can strengthen efforts in order to develop equitable economic growth through the strength of the economy.

Chairman of the Cooperative Institute for Research and Development (LePPek), Suroto, in Hatta (2015), stated that the number of primary cooperatives in Indonesia is the highest number of cooperatives in the world. The number of primary cooperatives in Indonesia in 2014 is as many as 209,000 units. This amount when compared with the number of villages in Indonesia, then more or less there are three (3) cooperative in each village. However, that many number of cooperatives have not been able to give a maximum contribution to the development and welfare of the people in Indonesia. This is shown by the contribution of cooperatives to Indonesia's GDP in 2014 which only increases as many as 2 percent.

The contribution of cooperatives are still very minimal to GDP, this demonstrates that overall cooperatives in Indonesia has not been able to provide an optimal role in development and in improving the welfare of society and its members, and still incapable to be the solution for welfare distribution. The conditions of development and community welfare in Indonesia according to data from the Central Statistics Agency (BPS), based on the Human Development Index (HDI) in 2015 amounted to 69.55. This shows Indonesian human development is still at the middle level and the level of prosperity is still relatively low. Meanwhile, based on World Bank data released on 5th April 2016 shows that the population of Indonesia in 2014 is as many as 254.5 million people with a per capita income of $ 3,630. However, as many as 28.6 million people in Indonesia are still living below the national poverty line is set at Rp 330.776 per person per month, and 40 percent of Indonesia's population still be around the national poverty line.

The depiction of the development and community welfare in Indonesia is a portrait accumulation of micro conditions of the level I areas in Indonesia, one of them is Bali Province. Based on BPS' data, the level of human development and community welfare of Bali by HDI value is included in the medium category, with HDI value of 73.27 in 2015. However, the disparities in welfare of Bali Province is still relatively high. It is shown by the Gini ratio of 0.38 in 2015. Meanwhile, the number of poverty in Bali in 2015 is still relatively large as many as 218.790 people live under poverty. The number of cooperatives of Bali Province according to data from the Ministry of Cooperatives and Small Medium Enterprise of Indonesia, has been increasingly continued in terms of quantity. In 2010, the number of active cooperatives in the Bali Province is as many as 3,632 units, increasing to 4,327 units in 2015.

Kembar Sri Budhi (2005), said that the economy of Bali Province is in need of local financial institutions such as cooperatives. This is mainly because cooperative is the solution for small and medium entrepreneurs to develop their own business. Meanwhile, Bello (2010) argues that cooperatives play an important role in job creation, economic growth and social development. As Novkovic (2007) said, cooperatives have an important role in the economy based on the values and principles of the cooperatives, but rarely recorded in the economic literature as the place to develop innovation, entrepreneurship, developing ethical business practices as well as play a role in development.

Based on data from the economy and welfare, as well as the cooperative data that has been described previously, it can be seen that cooperative development in the Bali Province has increased in terms of quantity. However, the economic and welfare conditions of the communities in Bali still indicates a state of relative need of improvement. Therefore, it is necessary to do a study to analyze how to influence the development of cooperatives on economic performance and welfare of communities of Bali, so we can establish the optimal measures to maximize the role of cooperatives in the economy and welfare.

The problems that need to be answered in this research is how the influence of cooperative development on economic performance and welfare of communities of Bali, as well as whether the economic performance of the Bali Province may mediate the effect of the cooperative development on the welfare of communities of Bali? Meanwhile, the purpose of this research is to analyze the influence of cooperative development variables to economic performance variable and the welfare of communities in Bali, as well as to analyze the effect of economic performance variable of Bali Province in mediating the effects of cooperative development for the welfare of the people of Bali Province.

II. Literature Review

The economic system is a method chosen by certain communities in their economic life and in solving any practical problems that they face (Sadr, 2008). According to Ismail et al (2015), a simple economic system has four (4) main elements, namely: ownership of resources, actors or participants, processes or working mechanisms and objectives (public welfare). The four essential elements in this economic system, describes a holistic building of the economic system, in which the ultimate goal is the welfare. The principles in the economic development in Indonesia have been clearly stated in 1945 constitution, but in reality Indonesia's economic system still hold a long debate which has been going as old as the independence of the Republic of Indonesia. Various economic systems had been practiced alternately, may it be the socialist pattern, capitalist, neoliberal, economic and Pancasila (Limbong, 2013).

The preamble to the 1945 constitution of Indonesia, article 33 stated that: subsection (1) the economy is structured as a joint venture based on the principle of kinship, subsection (2) branches of production that are important to the state and public needs are controlled by the state, subsection (3) the earth and water and natural resources contained therein controlled by the state and utilized for the welfare of the people, subsection (4) Indonesian economy shall be organized based on economic democracy with the principles of togetherness, efficiency with justice, sustainability, environmental friendliness, independence, and maintaining the balance of progress and national economic unity, and subsection (5) provides further guidance on the implementation of this article are regulated by constitution. Article 33 in the 1945 constitution of Indonesia can be interpreted that the Indonesian economy based on the principle of kinship and economic democracy performed with the principles of solidarity, justice, sustainable, environmentally sound, and independent in order to achieve prosperity.

Referring to the constitution and the culture of Indonesian society, the economic system that matches prevailing in Indonesia is Pancasila Economic System (SEP) and the appropriate trade establishment and supported by Article 33, subsection 1 of the 1945 Constitution is a cooperative (Halid, 2014). According Mubyarto (2010), SEP has a section called Economic Democracy, where the teacher is the cornerstone of the cooperative. Mubyarto (2003), said that the people's economy is an economic system that based on kinship, sovereignty of the people and show an earnest support on the community economy. Meanwhile, Limbong (2013) suggested that the concept of community economy, economic development implemented as a strategy for building prosperity with more priority to the empowerment of the community.

Constitution of the Republic of Indonesia Number 25 of 1992 (Constitution No. 25/1992), stating that the cooperative is "a business entity consisting of individuals or legal entities with the bases cooperative activities based on the principle of cooperation as well as people's economic movement that based on the kinship principle ". Meanwhile, the purpose of cooperatives according to the Constitution No.25 / 1992 is: "to promote the welfare of members in particular and society in general as well as to help build national economic order in order to form an advanced society, just and prosperous based on Pancasila and the Constitution of 1945" ,

Welfare is a condition where the human needs are fulfilled, both material and spiritual. Constitution No. 11 of 2009 on social welfare, states that: "social welfare is a condition of the fulfillment of material needs, spiritual and social citizens in order to live decently and be able to develop themselves so that they can perform their social function." This definition goes together with the statement of social welfare expressed by Midgley (1997), which is: *"a state or condition of human well-being that exists when social problems are managed, when human needs are met, and when social opportunities are maximized"*. Meanwhile, Jones (1990), states that prosperity is: *"the achievement of social welfare means, first and foremost, the Alleviation of poverty in its manifestations"*.

Welfare is an abstract concept because its existence is directly related to the values of life and ideology adhered by someone. Welfare is not only interpreted as a measure of material availability, but it also needs to be associated with the outlook that adopted by the nation. Welfare is a dream of an individual and also of the collective society who settled together in a same country, therefore there appears two (2) kinds of welfare, the individuals' welfare and the society welfare. , the individuals welfare is the well-being felt by everyone as an individual, while the society welfare was the welfare felt by everyone in one unit (Ismail et al, 2015).

According to Sen (2006), primary goods and income, freedom and social basis of self-esteem are the essential information in comparing the welfare between individuals. However, the ownership of primary goods is not enough to make interpersonal comparisons on welfare. If economic success is only determined by income and traditional luxuries and financial health indicators, the main objectives for the achievement of prosperity had failed. The main point of welfare according to Sen is the capability. Every community has a responsibility to develop programs for residents, especially children and gender so that they can achieve maximum fulfillment and develop into a capable man. Development of human capability associated with increased life expectancy, free of illiteracy, health and education in the community. Capability allows humans to be able to live a more meaningful life (prosperous).

The concept of welfare according to Sen (2006), is the basis for measuring the welfare of society developed by the United Nations Development Programme (UNDP). The measurement of welfare according to UNDP, based on calculation of the Human Development Index (HDI). This index is formed by three (3) basic dimensions, which are.

1) **Dimension of health (health index)**
   This dimension is measured through life expectancy at birth, which is defined as the average of the years estimation that can be taken by the person from birth. Life expectancy reflects the health of a society.
2) **Dimension of knowledge (knowledge index)**
   This dimension is measured by school length expectancy and the average length of school. The number School Length Expectancy is defined as the length of school period (in years) that is expected to be experienced by children at a certain age in the future (calculated for population aged 7 years and above). While the average length of the school year is defined as the amount of years used by the population in undergoing formal education (calculated for the population aged 25 years and over).
3) **Dimension of decent living standards (expenditure index)**
   This dimension is measured by the adjusted per capita expenditure, which is calculated based on the value of per capita expenditure and purchasing power parity.

Public welfare can be realized through development in all fields. The economic condition of a country/region can be seen through the performance of the economy, where the indicator, among others, is the Gross Domestic Product (GDP) / Gross Regional Domestic Product (GRDP), the rate of economic growth, poverty, unemployment and income inequality. According to Mankiw (2007), GDP is all of the expenditure on finished goods and services produced in a country, or all of the revenue generated by all of factors production owners in the country. Meanwhile, the pace of economic growth, in Kuncoro (2009), said to be an increase in the production of goods and services nationally/regionally. According to Central Statistics Agency (BPS) poverty is the inability to meet basic needs, while the unemployment rate is the number percentage of unemployed towards the labor force. The inequality according to Taylor (2012), is the gap between high income societies (rich) with the low-income society (poor). The level of inequality is usually measured through the Gini index.

2.1 The Role of Cooperatives in The Economy

Partomo (2013), stated that the cooperatives have an impact or role in the process of socio-economic development. The impact of these cooperatives may be a direct micro impact on the economy of its members and also the indirect micro impact on the cooperative organizations environment through the increase of employment, improved innovation, growth and better revenue sharing and so forth. While the macro impact of cooperatives, among others are, cooperatives potential contributions to economic development, for example: (1) the increase in revenues and the improvement of the economic situation of farmers, craftsman and others, as well as reducing rural poverty, (2) increases the activity of the capital establishment and human capital improvement through education and training, towards members, employees and managers, and (3) is market development, improvement of market structure and more effective competition.

Based on the Constitution No. 25 of 1992 on cooperatives, stated that the cooperative has the functions and roles, as follows.

1) To build and to develop the economic potential and the ability of particular members and society in general, in order to improve the economic and social welfare.
2) Actively participate in means to enhance the quality of human life and society.
3) Strengthening people's economy as a basic strength and resilience of the national economy with cooperatives as the cornerstone.
4) Attempt to create and develop the national economy which is a joint effort based on the principle of kinship and economic democracy.

Bello (2010), states that: "for over 160 years now cooperatives have been an effective way for people to exert control over their economic livelihoods as they play an increasingly important role in facilitating job creation, economic growth and social development. The paper concludes that to be effective and successful, cooperatives must continuously achieve two inter-related goals: enhance viability and improve ability to service its members; and remain an economically viable, innovative and competitive enterprise". Meanwhile, Halid (2014), revealed that the cooperative plays role and give important contributions in various countries in order to reduce poverty, create jobs and public unions. Sinaga et al. (2008), states that in general the cooperative has played a role in the community, such as increasing business scale and efficiency, increase the "bargaining position" of cooperative members in the face of market competition and encourage togetherness and solidarity among members to provide mutual support and loyalty to the organization.

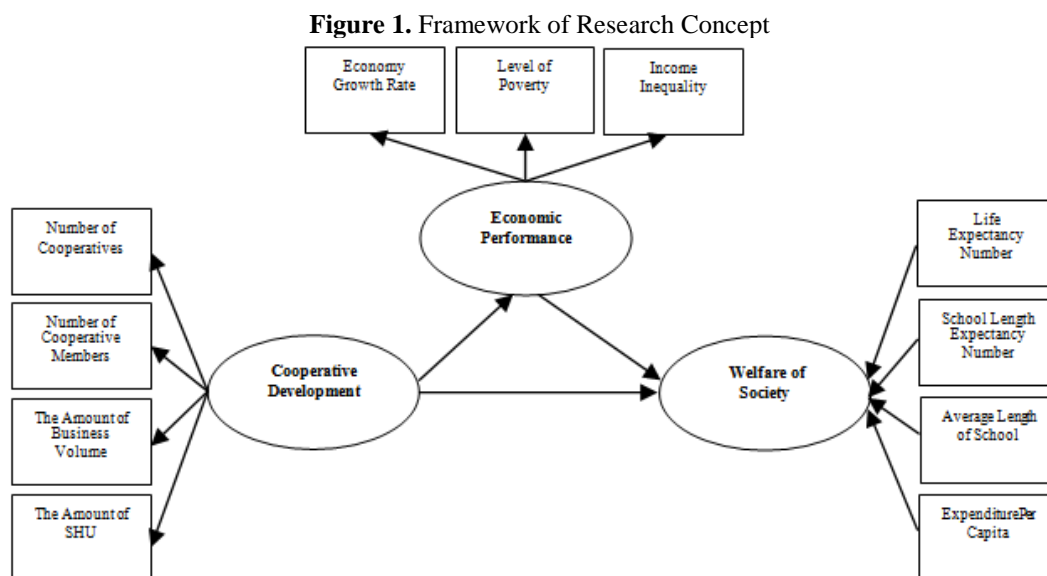## 2.2 The Role of Cooperatives in Welfare of Society

Cooperatives play a role in the welfare of society, associated with the benefits, functionality and cooperative influence on aspects/dimensions which forms the welfare of society. Based on Constitution No. 25 of 1992 on cooperatives, stated that "cooperative aims to promote the welfare of members in particular and society in general as well as to help build national economic order in order to form a just and prosperous society based on Pancasila and the Constitution of 1945". According to the 6th President of the Republic of Indonesia, Susilo Bambang Yudhoyono, in Halid (2014), there are five (5) cooperative strategic values to brings about people's welfare, which are.

1) Cooperatives to apply the principles of economic democracy.
2) Cooperatives to apply the principle of independence for the welfare of members and their communities.
3) Cooperatives able to generate justice and equitable prosperity.
4) Cooperatives can easily synergize with other strategic components, such as the State Owned Enterprises (BUMN) and the private sector in the people's welfare.
5) Cooperative programs to be in synergy with other programs for poverty alleviation, job creation and environmental preservation.

As a socio-economic institutions, cooperatives have a role in the economic field and also in the social field associated with welfare. Baswir (2013), suggests that the function of cooperatives in social areas, among others are: to encourage humane social order, built on a relationship of brotherhood and kinship, build a democratic social order that ensures protection towards the rights and obligations of each person, as well as to encourage the realization of social order and peaceful society. Halid (2014), said that the strategic cooperative role for the welfare of members and the community needs to be supported by economic ideology or political economy as the basis and direction of government policies that needs to develop cooperative role for the welfare of the people.

III. Research Framework

The conceptual framework of this study is based on a literature review on the role of cooperatives to the economy and social welfare. The conceptual framework visualization of this research can be seen as in Figure 1.

Figure 1. Framework of Research Concept

3.1 Latent Variables and the Indicators

This study has three (3) latent variables, namely the Cooperative development (X1), Economic Performance (Y1) and Welfare of Society (Y2). Each latent variable is explained and shaped by their indicators. The latent variables indicator of Cooperative development (X1), reflected by the indicator: the number of cooperatives (X11), the number of cooperative members (X12), the amount of business volume (X13) and the amount of SHU (X14). Latent variable economic performance, reflected by indicators: economic growth (Y11), level of poverty (Y12), and the income inequality (Y13). Meanwhile, the latent variables in the welfare of society (Y2), are formed by four (4) indicators, namely: life expectancy (Y21), school length expectancy (Y22), the average length of the school (Y23), and expenditures per capita (Y21).

3.2 The Research Hypothesis
The hypothesis in this study, are.
1) Hypothesis 1 (H1), the cooperative development has positive influence and significant on the welfare of society in Bali Province.
2) Hypothesis 2 (H2), the cooperative development has positive influence and significant on the economic performance of Bali Province.
3) Hypothesis 3 (H3), economic performance has positive influence and significant on the welfare of society in Bali Province.
4) Hypothesis 4 (H4), economic performance mediates the effect of cooperative development on the welfare of society in Bali Province.

IV. Research Methodology
This study is designed in the form of associative quantitative research. The steps in associative quantitative research according to Sanusi (2011), consisting of: (1) define the research problem, (2) formulate research objectives, (3) conduct a literature review, both theoretically and empirically, (4) to formulate hypothesis, (5) determine the sample size, if the population is large, (6) to classify and define the variables, both conceptually and operationally, (7) develop the research instruments, (8) defines the data collection method, (9) hypotheses testing and (10) draw conclusions based on the analysis of hypothesis.

4.1 Research Location
This research is conducted in Bali Province, which consists of 9 districts/cities, namely Denpasar, Jembrana, Tabanan, Badung, Gianyar, Klungkung, Bangli, Karangasem and Buleleng.

4.2 Data Collection and Data Analysis Methods
This research uses secondary data obtained from the Department of Cooperatives and Small Medium Enterprises of Bali Province, as well as the Central Bureau of Statistics of Bali Province. The used data is the panel data, which is data derived from a combination of cross section data that consists of eight counties and one city (i = 9), as well as time series data for 2010-2014 (t = 5), thus the number of observations in this study is 45 times.

The data analysis in this research using quantitative data analysis Structural Equation Modeling - Partial Least Square (SEM - PLS). The SEM – PLS analysis, according Solimun (2015), consists of 7 stages, namely: (1) to design a structural model (inner model), (2) to design a measurement model (outer model), (3) constructing the path diagram, (4) converting the path diagram into a system of equations, (5) Estimation, (6) the goodness of fit evaluation, (7) hypothesis evaluation.

V. Results and Discussions
The data in this study conducted with the help of a Smart PLS version. 2 program. The number of analyzed variables are three latent variables and eleven indicators.

5.1 Outer Model Evaluation
The outer model shows the relationship between the latent variables with their indicators. The reflective outer model uses the convergent validity, discriminant validity and reliability for its measurement. While the formative outer model is viewed by the significance of the weight value, which is measured through the bootstrapping procedure.

5.1.1 Reflective Outer Model
The reflective outer model testing uses convergent validity and discriminant validity. The reflective outer model in this study is the cooperative development construct and the economic performance construct.

1) Convergent Validity
Convergent validity indicates the correlation between the reflexive score indicator with the latent variable score. Convergent validity can be seen through the outer loading value between the indicator variables and its constructions. The outer loading values is > 0,7, so it can be said that the indicators and latent variables are highly correlated, but if the outer loading values is 0,5 to 0,6, it is still considered sufficient (Chin, 1998). Outer loading value of < 0,5 can be considered if the t-count value is not less than 1,68 (significant at α = 0,05). The outer loading values in this study are presented as in Table 1.

Table 1: Outer Loadings Indicator Towards Its Constructions

Relationships Between Variables	Original Samples (O)	Standard Error (STERR)	T Statistics (|O/STERR|)
X11 <- Cooperative development	0,833959	0,043862	19,013132
X12 <- Cooperative development	0,919202	0,032133	28,606124
X13 <- Cooperative development	0,796990	0,040068	19,890981
X14 <- Cooperative development	0,804923	0,058269	13,813892

Y11 <- Economic Performance	0,939101	0,261248	3,594675
Y12 <- Economic Performance	-0,912658	0,263770	3,460050
Y13 <- Economic Performance	0,560341	0,181447	3,088180
Y21 -> Welfare of Society	0,905838	0,028910	31,332712
Y22 -> Welfare of Society	0,871244	0,063374	13,747585
Y23 -> Welfare of Society	0,927303	0,028185	32,900651
Y24 -> Welfare of Society	0,973516	0,017978	54,150811

Source: Data Analysis Output by SEM-PLS

Based on Table 1, it can be seen that the four indicators (X11, X12, X13, and X14) of the cooperative development construct (X1) has an outer loading values > 0,7, so it can be said that between the cooperative development construct and its indicators have a high correlation and fulfill the requirements of convergent validity. Meanwhile, the Y11 indicator of economic performance constructs has the outer loading values > 0,7, and Y13 indicator of economic performance constructs has outer loading value of 0,56. This shows that the indicator Y11 has a high correlation with it constructs and Y13 indicators considered sufficient to have a correlation with its constructs. Meanwhile, the Y12 indicator of economic performance constructs has the value of -0.91. The Y12 outer loading value is smaller than 0,7, but significant at α = 0.05, with a t-value by 3,46 (t count > t-table), so that Y12 can be considered as an indicator of economic performance constructs. Overall it can be said that the economic performance construct together with the indicators meet the requirements of convergent validity. The values between the outer loading with indicators (Y21, Y22, Y23, and Y24) on the welfare of sociaty construct (Y2), is ignored, because the relationship between the constructs with the indicator is formative.

2) Discriminant Validity

Discriminant validity is measured by the value of cross loadings and Average Variance Extracted (AVE). The value criteria of AVE must be > 0.5, and the value of cross loadings between indicators with the constructs must be greater than the value of the correlation between the indicators with other constructs. The values of AVE and cross loading in this research are presented in Table 2 and Table 3.

Table 2: Values of AVE Latent Variables With Reflective Indicator

	AVE
X1	0,705878
Y1	0,676279

Source: Data Analysis Output by SEM-PLS

Table 3: Values Of Cross Loading Indicator Toward The Constructs

	X1	Y1	Y2
X11	**0,833959**	0,610915	0,735343
X12	**0,919202**	0,585846	0,718854
X13	**0,796990**	0,550926	0,649154
X14	**0,804923**	0,570664	0,726352
Y11	0,654378	**0,939101**	0,822186
Y12	-0,717827	**-0,912658**	-0,849492
Y13	0,106406	**0,560341**	0,377970
Y21	0,777088	0,789611	**0,905838**
Y22	0,720039	0,780913	**0,871244**
Y23	0,781814	0,819053	**0,927303**
Y24	0,826109	0,855692	**0,973516**

Source: Data Analysis Output by SEM-PLS

Based on Table 2, it can be seen that the latent variable of cooperative development (X1) and the latent variables of economic performance (Y1) has an AVE value > 0.5. Meanwhile, based on Table 3, it can be seen that the cross loading values of each indicator on the constructs are greater than the value of cross loading indicator on other constructs. This suggests that, based on the AVE value and cross loading, the latent variables X1 and Y1 have good internal consistency or meet the requirements of discriminant validity. Meanwhile, for the latent variable of welfare of society (Y2), because it has formative indicators, the discriminant validity testing is not to be conducted on it.

5.1.2 Formative Outer Model

Formative measurement model is evaluated based on the significance of the weight value, by comparing the t-statistic with t-table. For studies that using one direction hypothetical (one-tailed), the t-statistic is significant at > 1,68. The value of formative outer weight construct is shown as in Table 4.

Table 4: Outer Weight Construct With The Formative Indicators

	Original Sample (O)	Standard Error (STERR)	T Statistics (|O/STERR|)
Y21 -> Welfare of Society	0,090531	0,122501	0,674901
Y22 -> Welfare of Society	0,332126	0,105557	2,712049
Y23 -> Welfare of Society	-0,252085	0,182943	1,425171
Y24 -> Welfare of Society	0,885850	0,202664	3,541930

Source: Data Analysis Output by SEM-PLS

Based on the t-statistics value in Table 4, it can be seen that the Y22 and Y24 indicator are significant, while Y21 and Y23 are considered insignificant, because the t-statistic has a value of < 1,68. This causes the Y21 and Y23 indicator to be invalid for measuring the welfare of society construct, thus causing the welfare of society construct to become invalid as well and cannot be tested further in the structural model. However, removing one constructs in a research model will lead the research model to loses its meaning and basic goals, then theoretically a formative construct that has insignificant indicators can still proceed in the structural testing, but it is potentially reduce the effects of causality prediction between constructs (Abdillah and Jogiyanto, 2015).

5.2 Inner Model Evaluation

Model evaluation structural (inner model), is a test between the latent variables (constructs) to determine the relationship between the constructs by looking at the value of R^2 and Q^2. Based on the value of R^2, the relationship between variables are categorized as "strong" if the value of $R^2 > 0,7$, it is categorized as "substantial" if R^2 is 0,67, it is categorized as "moderate " if R^2 is 0,33, and it is categorized as "weak" if R^2 is 0,19 (Sarwono and Narimawati, 2015). R-Square (R^2) values from test results of SEM-PLS in this study can be seen in Table 5.

Table 5: R-Square Values For Endogenous Construct

	R Square	Information
Economic Performance (Y1)	0,478	Moderate
Welfare of Society (Y2)	0,884	Strong

Source: Data Analysis Output by SEM-PLS

Based on Table 5, it can be seen that R^2 economic performance construct (Y1) is 0,478. It indicates that the economic performance constructs within the inner models is moderate, and the economic performance construct can be explained by the cooperative development construct which amounted to 47,8 percent, while the remaining 52,2 percent is explained by other variables. Meanwhile, the value of R^2 in welfare of society construct is amounted to 0,884, greater than 0,7, so it can be said that the welfare of society construct is categorized as strong within the inner model. The value of R^2 in the welfare of society construct is amounted to 0,884, indicating that welfare of society construct can be explained by the construct of the cooperative development and economic performance as many as 88,4 percent, while the remaining 11,6 percent is explained by other variables.

Stone Geiser Q-square test (Q^2), can be calculated by: $Q^2 = 1 – (1-R_1^2) (1-R_2^2) ... (1-R_p^2)$, wherein R_1^2, R_2^2 and R_p^2 is the endogenous variables R-square within the equation model. The Q^2 value has a range of $0 < Q^2 < 1$, if the value of Q^2 is getting closer to 1, then the model is getting better (Solimun, 2015). Based on the value of R^2 in Table 5, the Q^2 values obtained for this study is.

$Q^2 = 1 – \{(1 - 0,478)(1 - 0,884)\}$
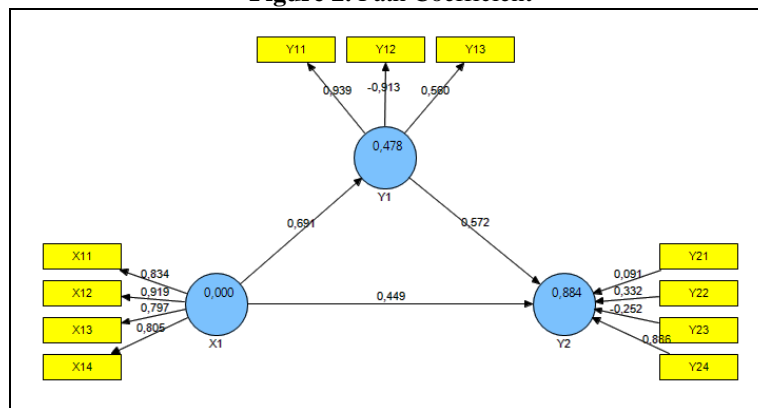$Q^2 = 1 – (0,522)(0,116)$
$Q^2 = 1 – 0,061$
$Q^2 = 0,939$

The calculation result of Q^2 is 0,939 indicates that the model has good predictive relevance, and 93,9 percent of the welfare of society construct variables can be explained by the construct variation of the cooperative development and economic performance, while the remaining 0,061 percent is described by other constructs outside the research model.

5.3 Evaluation of Direct Influence, Indirect Influence, and Total Influence Between Variables

The direct influence in a research model is indicated by the path coefficient value of all arrows over a single end, while the indirect Influence can occur through the role of the in between variables (mediation/intervening). The total effect between variables can be seen through the value of the path coefficients and the total influence of the PLS output. The direct influence between the constructs in this study can be seen on the path coefficient values shown in Figure 2.

Figure 2. Path Coefficient

Source: Data Analysis Output by SEM-PLS

Based on the coefficient paths values in Figure 2, it is figured that the cooperative development variables (X1), has a direct influence on economic performance (Y1) which amounted to 0,691, and has a direct influence on the welfare of society (Y2) amounted to 0,449. Meanwhile, the economic performance variable has a direct influence on the welfare of socety that amounted to 0,572. Cooperative development variable (X1) has indirect influence on the welfare of society (Y1) through the mediating variables of economic performance (Y1) that amounted to 0,396. Summary of the direct influence values, indirect influence and the total influence between the latent variables are presented in Table 6.

Table 6. Summary of Direct Influence, Indirect Influence, and Total Influence between Latent Variables

Constructs	Economic Performance (Y1)			Public Welfare (Y2)		
	PL	PTL	PT	PL	PTL	PT
Cooperative Development (X1)	0,691298	-	0,691298	0,448616	0,395604	0,844220
Economic Performance (Y1)				0,572262	-	0,572262

Description: **PL** is the direct influence; **PTL** is the indirect influence; **PT** is the total influence
Source: Data Analysis Output by SEM-PLS

5.4 Hypothesis Test Result
The hypothesis testing of this research is conducted through the resampling bootstrap method using the t-test statistical. The level of significance between influence variables acquired by comparing the t-test value with t-table value. Based on the value of *alpha* (α) of 0,05 and a degree of freedom (df) as big as the amount of data minus 2, then the t-table used in this study is 1,68. The results of data processing with PLS for t-statistic in this study can be seen in Table 7.

Table 7. Total Influence and T statistic

	Original Sample (O)	Standard Error (STERR)	T Statistic
X1 -> Y1	0,691298	0,372886	1,845491
X1 -> Y2	0,844220	0,036791	27,765439
Y1 -> Y2	0,572262	0,311276	1,830835

Source: Data Analysis Output by SEM-PLS

1) **Hypothesis 1 (H1)**: The cooperative development has positive influence and significant on economic performance of Bali Province
Based on the t-statistic value of data processing in Table 7, it can be seen that the *t-test* value is 1,85. This value is greater than t-table (1,68), so it can be said that the cooperative development has positive influence and significant on economic performance of Bali Province.
2) Hypothesis 2 (H2): The cooperative development has positive influence and significant on welfare of society in Bali Province.
Based on the t-statistic value of data processing in Table 7, it can be seen that the t-test value is 27,77. This value is greater than t-table (1,68), so it can be said that the cooperative development has positive influence and significant on welfare of society in Bali Province.
3) **Hypothesis 3 (H3):** The economic performance has positive influence and significant on welfare of society in Bali Province.

Based on the t-statistic value of data processing in Table 7, it can be seen that the t-test value is 1,83. This value is greater than t-table (1,68), so it can be said that the economic performance has positive influence and significant on welfare society in Bali Province.

4) **Hypothesis 4 (H4):** The cooperative development has indirect influence on the welfare of society through the economic performance of Bali Province.

Based on Table 6, it can be seen that the cooperative development has an indirect influence on the welfare of society which is amounted to 0,396, the direct influence of 0,448, while the total influence of the cooperative development on the welfare of society through economic performance is amounted to 0,844. The direct influence value of the cooperative development on the welfare of society is greater than the indirect influence through the mediating variables of economic performance (0,448 > 0,394). This indicates that the economic performance of Bali Province mediates the influence of the cooperative development on the welfare of society in Bali Province, but only in partial way. The amount of cooperative development influence on the public welfare through economic performance increased by 1,88 times compared to the direct influence of the cooperative development on the welfare of society in Bali Province.

5.5 Discussion

According to the Constitution No. 25 of 1992 on cooperatives, cooperative goal is to promote the welfare of members in particular and society in general as well as help build national economic order in order to form a just and prosperous society based on Pancasila and the Constitution of 1945. Jones (1990), stating that welfare is: "the achievement of social welfare means, first and foremost, the alleviation of poverty in its manifestations ". Meanwhile, in the Constitution No. 25 of 1992 on cooperatives, stated that the cooperative has the functions and roles, among others: building and developing the economic potential and the ability of members and the community to improve the economic and social welfare, and to create and develop the national economy. The test results of hypothesis (H1, H2, H3 and H4) in this study are consistent with the objectives, functions and role of cooperatives are in accordance with the Constitution No. 25 Year 1992 regarding cooperatives.

Baswir (2013), which states that cooperatives promote the establishment of a peaceful community and peace. Partomo (2013), stated that cooperatives have an impact on the economic development process, including through the increase of employment and income growth. Bello (2010), stated that some of the cooperative role are including facilitating job creation, economic growth and social development. Meanwhile, Halid (2014), revealed that cooperatives make an important contribution in reducing poverty and job creation. The hypothesis results in this study are in line with the statement of Baswir (2013), Partomo (2013), Bello (2010) and Halid (2014).

Sinaga et al (2008), stated that, in general, the roles of cooperatives in a community are to increase business scale and bargaining position in the face of market competition. The sixth president of Indonesia, Susilo Bambang Yudhoyono in Halid (2014), stated that cooperatives can work together with state-owned and private sector business in bringing prosperity to the people. Cooperative synergies with other economic subjects are expected to boost the economy, which in turn will impact on the general welfare of the society. The results of hypothesis 3 (H3) in this study stated that the economic performance has positive influence and significant on the welfare of society in Bali Province. Hypothesis 4 (H4) in this study, stated that the cooperative development has indirect effect on the welfare of society through the economic performance of the Bali Province. Hypothesis test results (H3 and H4) in this study are consistent with the statement of Susilo Bambang Yudhoyono in Halid (2014) and Sinaga et al (2008).

Based on the results of data analysis in this study, it can be said that cooperative development of Bali Province, which is indicated by the increased number of cooperatives, the number of cooperative members, the amount of volumes in cooperative efforts and the amount of cooperatives business uutput remnants (SHU) in the period 2010 to 2014 at 9 (nine) districts of Bali Province, has positive and significant impact on the welfare of society and the economic performance of the Bali Province. In addition, the cooperative development of Bali Province affects the welfare of societyo in Bali Province indirectly through increased economic performance of the Bali Province, which is viewed through three (3) indicators, namely economic growth, poverty rates and level of income inequality in nine (9) districts/cities in the Province of Bali within 5 years period (2010-2014). The economic performance improved because of the cooperative development plays role in improving the welfare of communities in Bali, which is indicated by 4 (four) indicators, namely, life expectancy, school length expectancy, the average length of the school, and per capita expenditure on 9 (nine) districts of Bali Province in the period 2010 to 2014.

VI. Conclusions and Recommendations

6.1 Conclusions

Based on the results of the discussion through the data analysis using SEM-PLS, the following conclusions can be drawn as follows.

1) Cooperative development has positive influence and significant on the economic performance and welfare of society in Bali Province.

2) Economic performance has positive influence and significant on the welfare of society in Bali Province as well as mediating the indirect influence of the cooperative development on the welfare of society in Bali Province.

6.2 Recommendations

Based on the results of the discussion and conclusions, there can be given the following advice.

1) Cooperatives in Bali Province needs to be continuously developed in terms of quantity and quality, thus encouraging improvements in economic performance and welfare of society in Bali Province.

2) Cooperatives in Bali Province needs to continue to work together with other economic subjects, so that the economic performance of the Bali Province continues to increase, thus increasing the welfare of people of Bali Province even more.

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