

Sustainability of Membership-Based Cooperatives (Entrapreneurial Organization) and Social Transformation for local Economic Empowerment

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Abstract. Cooperatives play a strategic role in Indonesia's economic system as membership-based organizations that integrate economic objectives with social missions. However, despite their significant numerical presence, cooperatives continue to face challenges related to low member participation, weak governance, limited innovation capacity, and relatively modest contributions to national economic output. This study aims to develop a conceptual framework explaining the sustainability of membership-based cooperatives as entrepreneurial organizations and agents of social transformation. Using a qualitative literature review approach, this study synthesizes insights from cooperative theory, hybrid organization theory, institutional logics, paradox theory, stakeholder legitimacy theory, and social entrepreneurship literature. The analysis reveals that cooperative sustainability is not achieved by eliminating tensions between economic efficiency and social responsibility, but by managing these tensions through a paradox management approach. The proposed model suggests that membership-based governance and entrepreneurial orientation contribute to sustainability through a sequential mechanism involving socio-economic paradox management, stakeholder legitimacy, social transformation, and local economic empowerment. The findings indicate that successful cooperatives balance market competitiveness with democratic participation by strengthening governance capacity, member education, stakeholder engagement, and value creation for members. This study contributes to the cooperative literature by integrating economic and social dimensions within a single framework and demonstrating that cooperative sustainability depends on the organization's ability to maintain equilibrium between market logic and social mission. The framework provides a foundation for future empirical research and offers strategic insights for strengthening cooperative development in Indonesia.

Keywords: cooperative sustainability, membership-based cooperatives, entrepreneurial orientation, paradox management, stakeholder legitimacy

INTRODUCTION

Cooperatives hold a strategic position in the Indonesian economic system as membership-based economic organizations that prioritize the principles of democracy, solidarity, and collective welfare. Unlike capitalist business entities, cooperatives position members as owners, users, and controllers of the organization. Therefore, their success is measured not solely by profitability but also by their ability to create sustainable economic and social value for members and the community. However, various national reports and studies from 2020–2024 indicate that the contribution of cooperatives to the national economy remains relatively

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limited, accompanied by problems of low member participation, weak management professionalism, and a low capacity for innovation and adaptation to market changes.

These issues demonstrate a gap between the ideal of cooperatives as membership-based organizations and the reality of cooperative management practices in Indonesia. Many cooperatives operate administratively but are unable to fully utilize their membership as a strategic resource for value creation and business sustainability. This situation creates an internal paradox: cooperatives are required to be efficient and market-oriented, while simultaneously maintaining the principles of member democracy and their social mission.

Recent statistics indicate that the cooperative sector in Indonesia continues to face significant structural challenges despite its strategic role in the national economy. According to data from the Ministry of Cooperatives and SMEs, the number of active cooperatives exceeds one hundred thousand units, involving tens of millions of members nationwide. However, the sector's contribution to national economic output remains relatively modest compared to its potential. Many cooperatives continue to struggle with governance quality, limited managerial capabilities, low digital adoption, and insufficient member participation.

These conditions illustrate a persistent gap between the normative role of cooperatives as pillars of the people's economy and their actual organizational performance. The challenge is not merely economic inefficiency but also the difficulty of balancing commercial competitiveness with democratic participation and member welfare. Consequently, understanding how cooperatives maintain sustainability while preserving their collective identity has become an increasingly important research issue in Indonesia.

From a theoretical perspective, this situation positions cooperatives as hybrid organizations that simultaneously combine economic and social goals. Paradox theory literature explains that this tension is inherent and persistent, and therefore cannot be resolved through an "either-or" approach; instead, it must be managed through a "both-and" logic. Failure to manage this paradox has the potential to weaken the cooperative's legitimacy, undermine member trust, and hinder the organization's sustainability.

On the other hand, the development of modern cooperative literature positions cooperatives as entrepreneurial organizations that must be innovative, adaptive, and oriented toward creating member value. However, an entrepreneurial orientation that is not balanced with strengthening membership identity and democratic governance risks encouraging mission drift, a shift in cooperatives from social goals toward market-driven dominance. Therefore, cooperative sustainability demands a conceptual approach that can explain how cooperatives manage the paradox between economic demands and social goals, while simultaneously leveraging membership as a basis for competitive advantage and social transformation.

The novelty of this research lies in the development of a cooperative sustainability model that explains how member-based governance and entrepreneurial orientation produce sustainability through a chain mechanism in the form of managing economic-social paradoxes, establishing stakeholder legitimacy, and social transformation and local economic empowerment, a structural relationship that has not been widely integrated in previous cooperative management literature.

Based on these conditions, an integrated literature review is needed that connects the perspectives of membership-based cooperatives, organizational paradox theory, hybrid organizations, and cooperatives as entrepreneurial organizations and instruments for local economic empowerment. This approach is expected to provide a more comprehensive conceptual foundation for understanding and formulating cooperative sustainability strategies in Indonesia.

LITERATURE REVIEW

Membership-Based Cooperatives, Cooperative Governance, Cooperatives as *Entrepreneurial Organizations*, Cooperatives as Instruments for Social Transformation and Local Economic Empowerment, Sustainability of Cooperatives

Cooperatives are understood as membership-based economic organizations with unique characteristics compared to capitalist companies, as members simultaneously act as owners, users, and controllers of the organization (Birchall, 2011). From this perspective, the success of a cooperative is not solely measured by profitability, but rather by the extent to which the cooperative is able to create economic and social value

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for its members in a sustainable manner. However, Birchall and Simmons (2004) emphasize that this strength is highly dependent on the level of member participation, both in economic activities and in democratic governance. Weak participation often gives rise to the cooperative paradox, where members enjoy the benefits of the organization without active involvement in decision-making, thereby weakening the cooperative's legitimacy and performance.

Similarly, Brentnall (2011) emphasized the importance of cooperative governance capacity that balances democratic principles with managerial professionalism. Cooperative democracy is not simply defined as voting rights; it requires leadership competence, member education, and clear working relationships between management and management. Without these capacities, cooperatives risk inefficiency or internal conflict that hinder their competitiveness in the marketplace. Therefore, strengthening human resources and cooperative education are strategic elements in maintaining cooperative sustainability.

In the context of modern economic competition, Mazzarol et al. (2013, 2018) view cooperatives as *entrepreneurial organizations* that must be innovative, adaptive, and market-oriented without losing their membership identity. They emphasize the importance of member value creation as the core of cooperative strategy, encompassing economic, functional, social, and long-term value. This perspective complements Birchall's view by emphasizing that member participation and identity must be translated into concrete business strategies for cooperatives to survive and grow sustainably.

Meanwhile, Bianchi and Vieta (2019) place cooperatives within the framework of economic democracy and solidarity economy, particularly through the practice of collective ownership and self-management. They demonstrate that cooperatives, especially worker cooperatives, exhibit a relatively higher level of resilience in the face of economic crises due to their internal solidarity and social ties to the community. This view reinforces the argument that cooperatives function not only as economic entities but also as instruments of social transformation and local economic empowerment.

This idea is reinforced by Benavides (2018) through the concept of *rediscovering cooperatives*, which emphasizes the need to rediscover the identity and distinctive advantages of cooperatives amidst the pressures of modernization. According to Benavides, the main challenge facing cooperatives is not the lack of relevance of the model, but rather the tendency to lose its fundamental cooperative values due to imitation of capitalist business practices. Therefore, modernization of cooperatives must be carried out without sacrificing the principles of democracy, solidarity, and orientation towards member welfare. Overall, the integration of these various perspectives shows that the sustainability of cooperatives is largely determined by the synergy between membership identity, democratic participation, governance capacity, business innovation, and social embeddedness within the community.

Cooperatives, Organizational Paradoxes, and Sustainability in Indonesia

Cooperatives are conceptually hybrid organizations that combine economic and social objectives within a single institutional entity. This characteristic places cooperatives in a paradoxical situation, as they are required to achieve efficiency, competitiveness, and financial sustainability, while also maintaining the principles of member democracy, solidarity, and collective well-being. Contemporary organizational literature emphasizes that the tension between these objectives is inherent and persistent and cannot be resolved through an “either-or” approach, but rather must be managed simultaneously through a “both-and” logic (Lewis, 2000; Smith & Lewis, 2011).

Within the framework of *paradox theory*, Lewis (2000) explains that organizational paradoxes arise when seemingly contradictory elements are interrelated and persist over time. This approach emphasizes the importance of a *paradox mindset*, namely the ability of organizational actors to accept contradictions and utilize them as a source of learning and innovation. This perspective is reinforced by Smith and Lewis (2011), who view organizations as dynamic equilibrium systems, where sustainability is achieved not by eliminating tensions, but by managing them adaptively. For cooperatives, this paradox is reflected in the dilemma between managerial professionalism and member participation, between market orientation and social mission, and between business growth and the principle of distributive justice.

Sustainability literature deepens this understanding by positioning sustainability as an arena of paradox. Hahn et al. (2015) critique sustainability approaches that overemphasize *win-win assumptions*, noting that in practice, organizations often face real trade-offs between economic performance, social responsibility, and environmental concerns. A paradoxical approach to sustainability requires organizations to

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acknowledge these conflicting objectives and develop reflective and contextual management mechanisms. In the context of cooperatives, this approach is relevant because cooperatives are accountable not only for financial performance but also for social legitimacy in the eyes of their members and local communities. Furthermore, studies on hybrid organizations and *institutional logics* emphasize that cooperatives operate under multiple, potentially conflicting institutional logics, such as market logic, social logic, and community logic. Annesi (2021) suggests that the sustainability of hybrid organizations is largely determined by their ability to navigate these institutional complexities through negotiation, rather than the dominance of one logic over another. In cooperatives, excessive dominance of market logic risks weakening member participation and trust, while dominance of social logic without adequate business capabilities can threaten business sustainability.

The dimensions of legitimacy and stakeholder relations become increasingly important in this context. A stakeholder-based branding approach emphasizes that an organization's meaning is not solely determined by management but rather is co-constructed through interactions with various stakeholders (Lim, 2022). For cooperatives, members are not merely customers, but owners and users of services. Therefore, the meaning of a cooperative as an economic and social entity depends heavily on its members' experiences and perceptions. Therefore, communication strategies, transparency, and participation are crucial instruments in building the legitimacy and sustainability of cooperatives, especially in the digital era.

Transformative Consumer Research approach and *alternative market systems* strengthen the position of cooperatives as alternative economic institutions oriented towards collective well-being and community resilience (Ozanne & Ozanne, 2016). This perspective views cooperatives not merely as market actors but as social mechanisms to address market failures and economic inequality. In the Indonesian context, this approach aligns with the normative mandate of cooperatives as stipulated in the Cooperatives Law, which positions cooperatives as the pillars of the national economy.

Empirically, Indonesian studies and reports for the 2020–2024 period indicate that cooperatives still face various structural challenges. Data from the Central Statistics Agency (BPS) (2021) and a report from the Ministry of Cooperatives and SMEs (2023) indicate that despite the relatively large number of cooperatives, their contribution to national GDP remains limited, and many cooperatives face issues with financial health, human resource quality, and governance. Research by Muniroh (2024) and Suwandi (2023) identified weak management professionalism, low digital adoption, and minimal active member participation as key factors contributing to poor cooperative performance. These findings indicate an internal paradox that has not been optimally managed, particularly between the demands for business efficiency and the principles of member democracy.

Thus, the integration of paradox theory, sustainability, hybrid organizations, and alternative markets provides a comprehensive analytical framework for understanding the dynamics of Indonesian cooperatives. Strengthening cooperatives cannot be achieved through a purely technocratic approach but requires an understanding of the structural tensions inherent in cooperative identity. This approach emphasizes that the sustainability of cooperatives in Indonesia depends on the organization's ability to manage socio-economic paradoxes, build stakeholder legitimacy, and develop adaptive capabilities aligned with cooperative values.

Cooperatives, Hybrid Organizations, and Social Entrepreneurship

Contemporary cooperatives and social organizations are increasingly understood as hybrid organizations that simultaneously combine economic and social objectives. Lynch et al. assert that hybrid organizations face an inherent tension between market logic and social logic that must be managed through clear governance, leadership, and organizational identity. In line with this view, Kalender & Vayvay emphasize the importance of maintaining a social mission at the core of an organization's strategy to prevent *mission drift* due to commercial pressures and professionalization. In the context of the social economy, Dumitraşcu & Feleagă position cooperatives as social economic entities that demand a balance between financial performance, solidarity values, and institutional sustainability. This perspective is enriched by Horea Milcu, who views cooperatives as social systems based on collaboration, shared values, and social capital, where organizational resilience is largely determined by the quality of relationships between members and the capacity for collective learning. Meanwhile, Bornstein & Davis view social organizations and cooperatives as agents of social change that rely on innovation, values-based leadership, and financial sustainability to

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create long-term impact. This approach is relevant to Prahalad's concept of *the Base of the Pyramid*, which emphasizes the empowerment of low-income groups as value-creating partners through inclusive and participatory business models. In the Indonesian context, Mutasowifin's thinking complements this framework by emphasizing that cooperatives can only fulfill their strategic role as pillars of the people's economy if they are managed professionally, oriented towards the needs of their members, and adaptive to market changes without losing their collective values.

Theoretical Synthesis: Commercial Pressures, Mission Shift, and Cooperative Sustainability in the Indonesian Local Economy

Cooperatives are essentially hybrid organizations that combine economic logic (market logic) and social logic (social/community logic) within a single organizational entity. As member-based organizations, cooperatives are required to achieve economic efficiency and market competitiveness, while simultaneously maintaining member democracy, equitable distribution of benefits, and empowering local communities. This situation creates inherent structural tensions as explained in hybrid organization theory and paradox theory (Lewis, 2000; Smith & Lewis, 2011).

In the Indonesian context, commercial pressures are increasing due to digitalization, market liberalization, competition with private companies, and demands for professionalization of cooperative management. Based on the institutional logics perspective, these pressures encourage the dominance of market logic, which emphasizes efficiency, business growth, innovation, and profitability. When market logic becomes too dominant, cooperatives risk experiencing mission drift, a shift in orientation from serving members and empowering communities to achieving solely economic goals.

This study argues that mission drift is not an inevitable consequence of entrepreneurial orientation. Using the paradox theory perspective, commercial pressures are viewed as a source of paradox that must be managed, not eliminated. The stronger the cooperative's entrepreneurial orientation, the greater the tension between the demands of market efficiency and the cooperative's collective values. Therefore, the sustainability of cooperatives depends on the organization's ability to develop paradox management capabilities, namely the ability to maintain a market orientation without sacrificing the cooperative's social identity.

this capability then generates stakeholder legitimacy, as members, the community, the government, and business partners see that the cooperative consistently carries out its social mission despite innovation and business expansion. From a stakeholder theory perspective, this legitimacy is a strategic asset that strengthens trust, member participation, and institutional support for the cooperative.

Furthermore, strong legitimacy enables cooperatives to carry out their transformational function in the local economy through job creation, increased member income, strengthened micro-enterprises, and developed community social capital. Thus, social transformation and local economic empowerment become the mechanisms linking legitimacy to cooperative sustainability.

Based on this synthesis, the sustainability of cooperatives in Indonesia's local economy is not determined by the ability to avoid commercial pressures, but rather by the ability to simultaneously manage the tension between market and social logics. The main contribution of this model is demonstrating that commercial pressures can be a driver of innovation and sustainability when mediated by paradox management and stakeholder legitimacy, but can also lead to mission drift if market logic overly dominates the cooperative's identity.

This study integrates Cooperative Theory, Institutional Logics Theory, Paradox Theory, and Stakeholder Legitimacy Theory into a single conceptual framework that explains how commercial pressures influence cooperative sustainability through the mechanisms of paradox management, stakeholder legitimacy, and social transformation. This model extends the cooperative literature by demonstrating that the relationship between entrepreneurial orientation and sustainability is not straightforward, but depends on the cooperative's ability to maintain a balance between market logic and social mission in the context of the local Indonesian economy.

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METHODS

This study employs a qualitative literature review approach to develop a conceptual framework explaining the sustainability of membership-based cooperatives as entrepreneurial organizations and agents of social transformation. The review integrates insights from cooperative theory, hybrid organization theory, institutional logics, paradox theory, stakeholder legitimacy, and social entrepreneurship literature.

Relevant academic articles, books, policy reports, and empirical studies published between 2000 and 2025 were identified through major scholarly databases. The selected literature was analyzed using thematic synthesis to identify recurring constructs, theoretical relationships, and research gaps concerning cooperative sustainability.

Based on this synthesis, a conceptual model was developed linking cooperative membership and governance, entrepreneurial orientation, socio-economic paradox management, stakeholder legitimacy, social transformation, and cooperative sustainability. The proposed hypotheses are intended to provide a foundation for future empirical testing in the context of Indonesian cooperatives.

RESULTS AND DISCUSSION

The findings suggest that cooperative sustainability depends not on eliminating tensions between commercial and social objectives, but on developing organizational mechanisms that enable both objectives to coexist. In practice, successful cooperatives navigate these operational trade-offs through several complementary strategies.

First, they separate strategic business decision-making from democratic accountability mechanisms. Professional managers are granted operational autonomy to respond to market opportunities, while major strategic decisions remain subject to member oversight and democratic governance.

Second, cooperatives continuously invest in member education and communication. This helps members understand why innovation, digitalization, and business expansion are necessary while reinforcing cooperative values and collective ownership.

Third, cooperatives translate commercial success into visible member benefits, such as patronage refunds, improved services, access to financing, or community development programs. This linkage reduces perceptions that commercial activities conflict with the cooperative mission.

Fourth, stakeholder engagement mechanisms strengthen legitimacy by ensuring that members, local communities, and external partners participate in evaluating organizational performance beyond financial indicators alone.

These practices demonstrate that the challenge faced by cooperatives is not choosing between economic efficiency and social responsibility, but developing governance capabilities that allow both goals to reinforce each other. Such capabilities become critical for preventing mission drift while maintaining competitiveness in increasingly dynamic markets.

Recent national statistics further demonstrate the structural challenges facing cooperatives in Indonesia. According to BPS data, the number of active cooperatives reached approximately 131,617 units in 2024, showing a modest increase compared to previous years following a period of institutional consolidation and cooperative restructuring. Nevertheless, the economic contribution of cooperatives remains relatively limited. The national cooperative business volume amounted to approximately IDR 214 trillion in 2024, equivalent to only 0.97% of Indonesia's Gross Domestic Product (GDP). These figures indicate that although cooperatives remain numerically significant, their economic influence has not yet fully reflected their strategic role as pillars of the people's economy.

This situation highlights a critical sustainability challenge. Cooperatives are increasingly required to adopt entrepreneurial practices, digital technologies, and market-oriented strategies to remain competitive. However, stronger commercial orientation may simultaneously intensify tensions between economic efficiency and cooperative principles such as democratic participation, solidarity, and equitable benefit

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distribution. Within the Indonesian context, the risk is not merely declining competitiveness but also mission drift, whereby cooperatives gradually prioritize commercial objectives over member welfare and community empowerment.

The present study argues that sustainable cooperatives are distinguished not by their ability to avoid commercial pressures but by their capability to manage these tensions constructively. Successful cooperatives tend to institutionalize governance mechanisms that balance managerial professionalism with democratic accountability, ensuring that business growth remains aligned with collective member interests. Consequently, stakeholder legitimacy, member trust, and local economic empowerment become essential mediating mechanisms through which entrepreneurial orientation contributes to long-term cooperative sustainability.

CONCLUSIONS

Membership-based cooperatives occupy a unique position as hybrid organizations that simultaneously pursue economic objectives and social missions. The literature review demonstrates that the sustainability of cooperatives is not determined solely by financial performance or business growth, but by their ability to maintain a dynamic balance between market competitiveness, democratic participation, member welfare, and community empowerment.

This study highlights that commercial pressures arising from market competition, digitalization, and organizational professionalization should not be viewed solely as threats to cooperative identity. Instead, these pressures can become drivers of innovation and long-term sustainability when managed through an effective paradox management approach. Sustainable cooperatives are those capable of reconciling economic efficiency with social responsibility through governance systems that combine managerial professionalism and democratic accountability.

The proposed conceptual framework shows that membership-based governance and entrepreneurial orientation contribute to cooperative sustainability through a chain of mechanisms involving socio-economic paradox management, stakeholder legitimacy, social transformation, and local economic empowerment. Stakeholder legitimacy emerges as a critical strategic asset because it strengthens member trust, participation, institutional support, and collective commitment to cooperative goals. In turn, this legitimacy enables cooperatives to generate broader social impacts through income improvement, job creation, support for microenterprises, and the strengthening of local social capital.

The study further concludes that the major challenge facing Indonesian cooperatives is not choosing between economic and social objectives, but developing organizational capabilities that allow both objectives to reinforce one another. Consequently, the long-term sustainability of cooperatives depends on their capacity to preserve cooperative values while embracing innovation, entrepreneurship, and adaptive governance. This integrated perspective contributes to the cooperative literature by demonstrating that sustainability is achieved through the constructive management of tensions between market logic and social mission, rather than through the dominance of one over the other.

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