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Analysis of the Credit Granting Process on the Performance of the Berkat Bulukumba Savings and Loan Cooperative (Panampu Sub-Branch Office)

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Abstract: This study investigates the credit granting process and its impact on the performance of Koperasi Simpan Pinjam Berkat Bulukumba, Panampu Branch Office. The objective is to explore how credit procedures are implemented, the factors that influence their effectiveness, and the implications for credit risk and cooperative performance. Employing a qualitative approach with a case study strategy, data were collected through in-depth interviews, direct observations, and cooperative documentation, and analyzed using Miles and Huberman's interactive model. The results indicate that although formal procedures such as administrative verification and the 5C principle are adopted, their practical application is inconsistent, often influenced by social proximity and informal judgment. These inconsistencies have contributed to a rise in non-performing loans and weakened financial and institutional performance. The findings emphasize the importance of accurate signal interpretation and consistent risk management frameworks in cooperative lending. This study contributes to the theoretical discourse by contextualizing the application of Signaling Theory and the 5C model in microfinance institutions and offers practical insights into strengthening credit governance in cooperatives.

Keywords: cooperative lending; credit risk; signaling theory; 5C principle; institutional performance;

A. Introduction

Savings and loan cooperatives (SLCs) serve as community-based microfinance institutions that play a pivotal role in providing inclusive financial access and supporting local economic development. Their presence is particularly vital in contexts where formal banking systems are inaccessible or too restrictive for low-income populations. Globally, cooperatives have been recognized as strategic entities in

promoting social equity, financial inclusion, and sustainable livelihoods (Birchall, 2018). In Indonesia, SLCs have proliferated as grassroots financial alternatives, yet many face sustainability challenges due to weaknesses in governance—particularly in credit risk management. The credit granting process is central to cooperative operations; if poorly managed, it leads to non-performing loans (NPLs), which in turn



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degrade cooperative profitability and institutional trust.

Numerous studies have examined the implementation of the 5C credit analysis framework (Character, Capacity, Capital, Collateral, Condition) in evaluating borrower eligibility. For instance, Ramadhan (2018) and Febriyanti (2019) highlight that failure to comprehensively apply the 5C criteria increases loan default rates in cooperatives. However, these studies tend to adopt a quantitative lens, often overlooking the lived realities and informal mechanisms involved in the credit evaluation process. Furthermore, there remains a research gap in understanding how social relationships, perceptions of trust, and other non-formal indicators influence credit decisions at the cooperative level, especially in rural or semi-urban contexts (Kristiono, 2025; Rohayati, 2018).

This research is anchored in Signaling Theory, which posits that in the presence of asymmetric information, decision-makers rely on observable “signals” to infer the unobservable quality of a counterpart (Connelly et al., 2011). Within the cooperative setting, credit officers interpret borrower signals such as past behavior, social reputation, and relational proximity as proxies for creditworthiness. In parallel, the 5C framework offers a structured yet flexible model for assessing loan applications. This dual-theoretical lens enables a holistic exploration of how formal procedures and informal cues intersect in credit risk management (Amalia, 2019; Cahyaningtyas & Putra, 2020).

Given the gap between theoretical frameworks and practical implementation in the field, this study aims to analyze the credit granting process at Koperasi Simpan Pinjam Berkat Bulukumba, Panampu Sub-Branch Office. It specifically seeks to answer: (1) How are credit procedures implemented? (2) What factors influence their effectiveness? and (3) How do these

procedures affect the cooperative’s risk of bad debt and overall performance?

This study contributes both theoretically and practically. Theoretically, it advances the application of Signaling Theory and the 5C model within microfinance institutions by incorporating contextual and relational dynamics. Practically, it offers actionable insights into improving cooperative credit governance, particularly in ensuring procedural integrity and minimizing informal bias in loan decisions. The research also adds to the limited body of qualitative investigations on credit mechanisms in Indonesian cooperatives, especially those situated in non-urban financial ecosystems (Hasanah, 2023; Masruroh, 2022; Guspul et al., 2023).

B. Materials and Methods

This study employed a qualitative approach using a case study strategy to explore in depth the credit granting procedures and their impact on institutional performance at Koperasi Simpan Pinjam Berkat Bulukumba, Panampu Branch Office. The case study method was chosen because it allows for a contextual understanding of specific phenomena within a social unit by collecting direct data from the involved subjects and objects (Yin, 2018). This approach is relevant for examining organizational practices in credit risk management, which are often influenced by social, structural, and behavioral dimensions.

The data used in this study consisted of both primary and secondary sources. Primary data were obtained through in-depth interviews with key informants, including bookkeeping staff and cooperative clients directly involved in credit-related processes. This method was chosen for its effectiveness in capturing detailed insights, perceptions, and lived experiences of actors in credit decision-making (Adams & Cox, 2008). Additionally, direct observation was

conducted at the cooperative office to understand the work environment and administrative mechanisms. Secondary data were derived from internal cooperative documents such as credit application forms, borrower evaluations, financial reports, and operational manuals, as well as supporting literature from relevant academic journals and reference books.

Data collection was facilitated using a semi-structured interview guide to allow both open-ended exploration and focused inquiry aligned with the research objectives. Non-participant observation was conducted to systematically document relevant activities and interactions. Documentation was collected manually and digitally with permission from the cooperative management. These instruments enabled triangulation to ensure the credibility of findings (Kallio et al., 2016).

The inclusion criteria for data were any information directly related to credit assessment procedures, whether administrative or informal. Data that were too general or irrelevant to the credit process, or that originated from other cooperative branches, were excluded. The categorization of data was also guided by the theoretical framework of Signaling Theory and the 5C credit analysis principle, providing a conceptual foundation for data reduction and theme formulation.

The unit of analysis in this study comprised individuals with direct roles in credit processing, namely credit analysts, bookkeeping officers, and selected cooperative members who received loans. Informants were selected purposively based on their knowledge and experience (Palinkas et al., 2015). The number of informants was determined based on the principle of saturation—when new interviews no longer yielded new or significant insights.

Data analysis was conducted using the interactive model of Miles and Huberman, consisting of three main components: data

reduction, data display, and conclusion drawing/verification. These stages were carried out iteratively and simultaneously to ensure deep contextual understanding (Miles et al., 2014). The data were coded and categorized using NVivo 12 qualitative software, allowing systematic management and thematic analysis of multiple sources. Thematic analysis was applied to identify patterns and relationships across categories, particularly those related to credit signals, borrower character assessment, and cooperative risk mitigation practices (Nowell et al., 2017).

C. Result and Discussion

The findings reveal that the credit granting process at Koperasi Simpan Pinjam Berkat Bulukumba, Panampu Sub-Branch Office, follows a structured procedure involving administrative document collection, field surveys, feasibility analysis, and loan disbursement. Applicants are required to submit standard documentation such as identification, proof of income, and collateral information. However, field observations and interview data show inconsistencies in the application of these procedures. Officers sometimes rely on personal familiarity or reputation of the borrower to shorten or bypass parts of the assessment process. One staff member noted: “If the borrower is a regular client and has a good track record, we don’t investigate as thoroughly, just confirm the essentials.”

This informal practice reflects a deviation from standardized assessments and poses a potential risk to credit quality. These findings are consistent with previous research that highlighted flexibility in field surveys may expedite service but weakens risk evaluation (Winiastiti, 2024). Additionally, the documentation process is often not standardized, with some assessments conducted verbally or undocumented, indicating a lack of institutional rigor.

Factors Influencing Effectiveness

The effectiveness of credit procedures is influenced by both internal and external factors. Internally, the skill level of credit officers, the quality of administrative procedures, and adherence to the 5C principles (Character, Capacity, Capital, Collateral, Condition) play a key role. Externally, borrowers' income stability, business seasonality, and local socio-economic conditions also affect loan performance. Interviews with borrowers revealed that financial obligations fluctuate with business performance. One borrower explained:

“During slow business seasons, it's really hard to make payments even though we started off fine.”

Moreover, informal factors like social closeness and trust influence officers' judgment in assessing creditworthiness, which aligns with relational lending theory. This behavior, while rooted in community trust, may reduce objectivity in risk analysis. Social dynamics in cooperatives often override data-based decision-making (Amalia, 2019). Additionally, a lack of formal training for credit staff was evident. Documentation showed no recorded professional training in the past two years, which compromises technical capacity. This condition is similar to what has been observed in other cooperatives that lack formal credit training and face difficulty in accurately assessing borrower risk (Oktapian, 2023).

Impact on Credit Risk and Cooperative Performance

The lax enforcement of credit procedures has led to an increase in non-performing loans (NPLs), directly affecting the cooperative's financial stability. Internal reports noted a spike in overdue payments during the third quarter of 2023. A bookkeeping officer admitted: “Sometimes we approve loans due to managerial

pressure or family ties, but they often turn out to be bad debts.”

This indicates a systemic issue where informal influence overrides risk considerations. As a result, the cooperative's liquidity is constrained, hampering its ability to rotate capital efficiently and reducing its profit margins. Similar findings support that there is a strong correlation between high NPL ratios and declining cooperative performance (Hasanah, 2023). The inability to recover bad loans diminishes members' trust and reduces dividend (SHU) distribution. Procedural weaknesses in credit approvals contribute significantly to institutional fragility in cooperatives (Asmarianti, 2022).

Theoretical and Practical Implications

The findings affirm the applicability of Signaling Theory in cooperative lending practices. When formal data is lacking, cooperative officers interpret non-financial signals such as borrower demeanor, community reputation, and interpersonal trust to make credit decisions. These informal signals heavily influence risk assessments, especially in settings where information asymmetry is high. In such contexts, signal interpretation becomes critical in reducing uncertainty (Connelly et al., 2011). On the other hand, the 5C framework, while acknowledged in policy documents, is often inconsistently implemented in practice. The superficial application of 5C principles without contextual understanding has been criticized, calling for more grounded and culturally informed risk frameworks (Cahyaningtyas & Putra, 2020). This study supports their assertion and calls for a balance between formal procedures and adaptive local knowledge.

Comparative Context and Novelty

When compared to similar studies, this research aligns with earlier findings that incomplete application of credit assessment frameworks increases default rates in

cooperatives (Ramadhan, 2018; Febriyanti, 2019). Conversely, cooperatives in Denpasar with rigorous enforcement of the 5C model experienced healthier loan portfolios (Kertyasih et al., 2023). This contrast emphasizes the role of institutional discipline and the socio-cultural setting in determining credit outcomes. The novelty of this study lies in its qualitative insight into how informal processes interact with formal procedures in a cooperative setting—an area less explored in previous research, which often focuses on quantitative indicators alone.

Future Implications

The study underscores the urgent need for structural reform in cooperative credit management. Training and standardization of credit evaluations must be institutionalized to ensure fairness and reduce default risks. Incorporating both formal metrics and contextual signals can enhance decision-making robustness. Furthermore, digitalization of credit monitoring systems may help standardize procedures and reduce subjective biases. Digital systems improve transparency and accountability in credit operations, which is crucial for cooperatives seeking long-term sustainability (Pracoyo & Ladjadjawa, 2020). These findings serve as a foundation for strengthening both policy and practice in cooperative credit risk governance. This study concludes that the credit granting procedures implemented by Koperasi Simpan Pinjam Berkat Bulukumba, Panampu Branch Office, generally follow administrative verification and the 5C principle framework. However, the practical implementation often lacks consistency due to the influence of relational and informal considerations in decision-making. The effectiveness of credit assessment is significantly determined by the competence of credit officers, adherence to standardized procedures, and the presence of monitoring mechanisms. Inconsistencies in applying

formal evaluation procedures have contributed to increased credit risk, which in turn negatively affects the financial performance and institutional sustainability of the cooperative.

Theoretically, the findings reinforce the relevance of Signaling Theory in microfinance contexts, showing how cooperative officers interpret both formal and informal signals from borrowers as indicators of creditworthiness. While the 5C principle provides a normative framework for risk assessment, its application in practice is partial and often informal. This research contributes to the broader discourse on cooperative governance by offering a contextualized understanding of how informal social dynamics intersect with formal credit procedures. It also highlights the need to integrate behavioral and relational factors into cooperative risk management frameworks.

Practically, the study recommends that cooperatives enhance the training of credit officers, implement standardized and verifiable assessment tools, and strengthen post-credit monitoring systems. Cooperative regulators should intensify institutional audits and promote digital credit evaluation systems to minimize subjective bias. For academics and practitioners, the findings underscore the need for adaptive but accountable credit management models tailored to local contexts.

Future research is encouraged to conduct multi-site comparative case studies to explore variations in credit practices across different cooperatives, incorporate longitudinal designs to observe long-term effects of procedural reforms, and examine the role of financial technology in improving transparency and risk management in cooperative lending systems. These directions will deepen our understanding of

sustainable credit practices in community-based financial institutions.

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